



# House Budget Committee

## Democratic Caucus

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April 6, 2000

## **A Summary and Analysis of the House-Passed Budget Resolution for Fiscal Year 2001**

***This document has not been reviewed and approved by the Democratic Caucus of the Budget Committee and therefore may not necessarily reflect the views of all the members of the caucus.***

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***General Notes:***

- All years are fiscal years unless otherwise noted.
- Funding levels for discretionary programs are stated in budget authority, unless otherwise noted. Funding levels for entitlements and other direct spending programs represent outlays.
- In general, the 2001 discretionary funding levels in the House-passed budget resolution are compared with the Congressional Budget Office's (CBO's) March discretionary baseline. The CBO baseline figures are used for comparisons because they represent the 2000 funding levels adjusted for inflation. However, when appropriate, the discretionary funding levels in the House-passed resolution are also compared with CBO's "freeze" level. CBO's freeze level makes no adjustment for inflation. Both the baseline and the freeze level are adjusted to exclude changes to mandatory programs enacted in 2000 appropriations acts.
- Numbers may not add due to rounding.

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## Overview

This year's budget resolution is largely the same as the discredited budget resolutions the House passed in 1998 and 1999. As before, the budget plan does not provide a realistic blueprint to guide subsequent budget legislation. Rather, the Republican budget is designed as a vehicle to promote a large tax cut to the detriment of Social Security and Medicare solvency and other priority programs supported by most Members of Congress and the American people.

Once again, the House-passed budget resolution does not extend the solvency of Social Security and Medicare for even one day. Worse, the resolution comes perilously close to invading the Social Security surplus, which both Democrats and Republicans have forsworn. Taking at face value Republicans' promises to provide a tax cut of at least \$200 billion and \$40 billion for undefined Medicare reform and an undefined prescription drug benefit, their budget exhausts the entire non-Social Security surplus by 2002. This puts the budget on course to tap into the Social Security surplus just beyond the five-year budget window in the resolution ***even if one accepts their unrealistic assumptions about spending cuts yet to be enacted.***

## The Republican Budget Resolution Uses Up the Entire Surplus — and Maybe More

**All figures exclude the Social Security surplus; negative signs indicate savings; dollars in billions**

	2000	2001	2002	2003	2004	2005	Five years	Ten years*
CBO Surplus w/o Social Security	27	15	29	36	42	48	171	893
Tax cuts (before use of "reserve")		10	22	31	42	45	150	750
Non-defense cuts** including timing shifts	12	-16	-13	-21	-30	-37	-117	-377
Defense increases		3	2	2	3	2	12	23
Farm payments	6	1	1	2	2	2	7	18
Extend expiring Customs Service fee					-1	-2	-3	-13
Medicaid/CHIP access and benefits		a	a	a	a	a	1	2
Interest costs of policies	a	1	1	2	3	4	11	75
Surplus claimed by Republicans	8	17	16	20	24	33	110	415
Reserve for \$50 billion additional tax cuts***		5	10	10	10	15	50	250
Reserve for Medicare "reform" and drugs***		2	5	8	11	14	40	155
Interest cost of reserves		a	1	2	3	4	10	80
Surplus/Deficit(-) when reserves are used	8	10	0	0	0	0	10	-70

"a" means "less than \$½ billion"

*\* Estimates for the second five years employ the following assumptions: 1) Both defense and non-defense discretionary spending grow in nominal terms after 2005 at the same rate the Budget Resolution proposes for 2001-2005. 2) Tax cuts grow after 2005 such that the cost in the second five years is four times the cost in the first five years. This 4:1 ratio is more conservative than that in the tax cut passed by Congress (and vetoed by the President) last year. That tax cut cost \$156 billion over five years and \$792 billion over ten; the second five years cost more than four times the first. And the ten-year cost of that tax bill would have been even greater — perhaps \$869 billion — if many of its provisions had not expired in the ninth year.*

*\*\* “Non-defense” figures include the 2000 supplemental appropriations bill as reported by the House Appropriations Committee, including both defense and non-defense amounts. As reported, that bill shifts \$7.0 billion of outlays out of 2001 and into 2000 through the repeal of previously enacted timing shifts, and the Budget Resolution assumes another \$2.4 billion in such repeals/shifts, for a total of \$9.4 billion. (Note that on March 29 the House amended the supplemental appropriations bill to add another \$4.1 billion in budget authority. Under current CBO estimates, the outlays from that funding increase and the extra debt service costs in all years will result in “on-budget” deficits from 2002 on, although those costs are not included in the above table.)*

*\*\*\* These two “reserves,” which total \$90 billion over five years, are not contingent upon improvements in the economy. They become available when the committees of jurisdiction report legislation using them and the Chairman of the Budget Committee adjusts the aggregates and allocations in the Budget Resolution accordingly. The Medicare reserve is only available for legislation that is deemed to be “reform” (that term is undefined). The extra tax cuts may be for any purpose. The Budget Resolution specifies the first-year costs of the \$40 billion in Medicare reserves (\$2.0 billion) and the first-year cost of the extra \$50 billion tax cut (\$5.2 billion). The Budget Resolution does not specify the year-by-year path of the remaining \$83 billion of Medicare and tax cut reserves over the period 2002-2005. However, subsequent to House agreement on the Budget Resolution, the Republican staff of the House Budget Committee supplied the assumed year-by-year figures for the reserves shown above.*

*[In addition, the Budget Resolution contains further language allowing still greater tax cuts than the \$200 billion shown above if the economy performs better than CBO expects.]*

Compounding this problem, the resolution is premised on substantial cuts in domestic programs that will never occur, making it even more likely that Social Security revenues will be used for other purposes. Having increased non-defense appropriations faster than inflation in every year since 1996, Republicans now would have us believe that they will stop and reverse course.

For 2001, the House-passed resolution assumes that Congress will cut non-defense appropriations \$7 billion below a hard freeze and \$20 billion below the level needed to keep pace with inflation. This is equal to a cut of more than 6 percent below the level needed to keep pace with inflation next year alone. This implausible assumption lays the tracks for another end-of-year budget “train wreck” in which Congress uses accounting gimmicks to hastily pass appropriations bills that have no relation to this overall budget plan.

More importantly, though, the House-passed resolution calls for increasingly unrealistic cuts in non-defense appropriations for 2002 through 2005 to make room for a large and growing tax cut. These deepening program cuts are even less plausible than the proposed 2001 cuts and, like those, will never occur. This means that any large tax cut enacted this year would increasingly be paid for out of the Social Security surplus.

To cloak the fact that the growing size of the resolution’s tax cut jeopardizes both Social Security and domestic priorities, this year’s budget does not show the longer-term implications of

Republican proposals. Last year, Republicans offered a budget that stretched over ten years, but the implications of risky and expensive tax cuts garnered little support. So this year the resolution covers only five years, which conceals the resolution's troubling long-run implications.

The budget surpluses projected for the next several years offer a unique opportunity. Democrats advocate using some portion of the non-Social Security surplus to strengthen and preserve Social Security and Medicare. Both programs will face significant fiscal challenges after 2010, but the House-passed resolution does nothing to meet the challenges.

Democrats also believe that a significant portion of the on-budget surplus, in addition to the entire Social Security surplus, should be dedicated to paying off the publicly held debt. Almost all economists, including Federal Reserve Chairman Alan Greenspan, agree that paying down the publicly held debt keeps interest rates down, boosts investment, fosters real wage growth, and strengthens the government's finances as preparation for the fiscal challenges faced by Social Security and Medicare. The House-passed resolution devotes none of the on-budget surplus to debt reduction after 2001, and after 2005, begins to invade the Social Security surplus.

Fortunately, projected surpluses are large enough to address these long-term fiscal difficulties while still providing targeted tax cuts and adequate resources for high-priority investments. On the House floor, Democrats proposed an alternative budget that made room for tax cuts to mitigate the marriage penalty, eliminate the impact of the alternative minimum tax on the middle-class, assist small business and the self-employed, promote education, and foster investment in our communities. This tax relief was accomplished while extending the solvency of Social Security and Medicare and accommodating key investments for education, public safety, military modernization, veterans, farmers, and the environment.

Democrats' alternative resolution was a realistic guide to the government's overall budget priorities. It balanced competing needs instead of sacrificing everything else to a risky tax cut. It preserved Social Security and Medicare for the long run, paid down the publicly held debt, provided tax relief to those who need it, and adequately funded essential programs. Instead of merely being a political broadside, the Democratic alternative did what a budget resolution is supposed to do: set out an **achievable** plan to address **all** our major budget priorities.

## **Republicans Jeopardize the Social Security Surplus**

In the Budget Committee mark-up, Republicans emphasized that their \$200 billion tax cut was a good "down payment" on the tax cut advocated by the presumptive Republican presidential nominee, Governor George W. Bush. They noted that a cut this size would approximate the estimated \$300 billion cost of the Bush tax cut over those same years.

Republicans have claimed that a tax cut of this size does not jeopardize the Social Security surplus. In fact, during mark-up they stated that their budget had a non-Social Security surplus

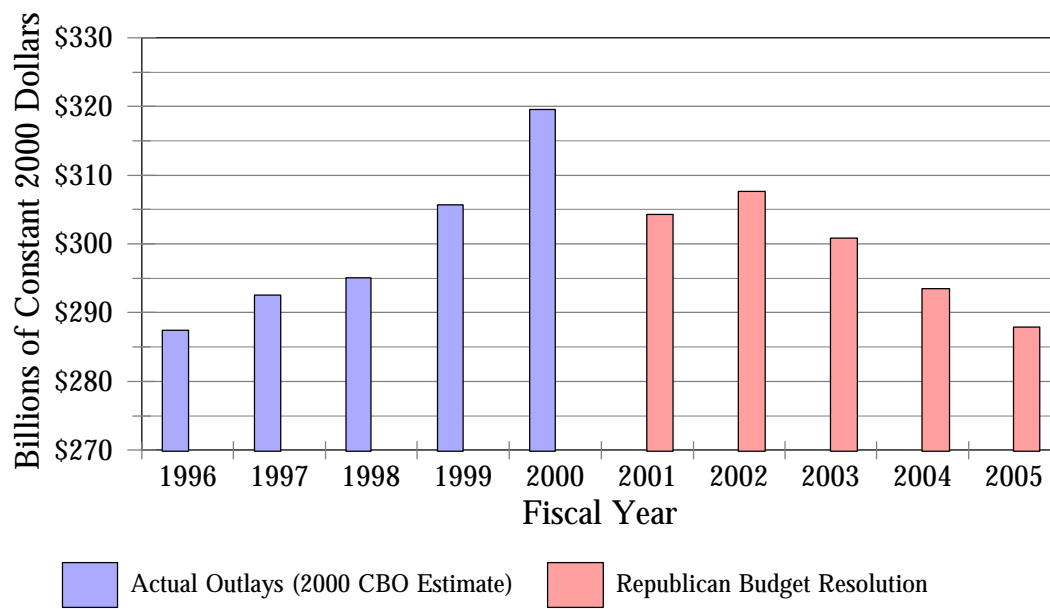
greater than \$100 billion over the five-year period 2001 to 2005. However, this claim rests on double counting. The full \$200 billion Republican tax cut consists in part of a \$50 billion reserve fund specifically dedicated to tax cuts. In addition, there is a \$40 billion reserve fund specifically dedicated to a prescription drug benefit for Medicare. If these two reserve funds are used for their stated purposes, the non-Social Security, or on-budget, surplus is exactly extinguished, leaving no margin for error. Their \$100 billion on-budget surplus disappears.

In Committee mark-up, Republicans repeatedly insisted that their budget plan provided a prescription drug benefit and at least \$200 billion in tax cuts. However, Republicans cannot use this money twice. If they use the \$90 billion in the two reserve funds to provide a prescription drug benefit and their full tax cut, then they put the on-budget surplus on the brink of deficit as of 2002 and probably start invading the Social Security surplus at some point after 2005.

Even an on-budget surplus of zero, which reflects a full \$200 billion tax cut and prescription drug benefit, is clearly too optimistic. The figures in the resolution assume enactment of large cuts in domestic appropriations that will never occur because Republicans themselves have repeatedly rejected them during their tenure in the majority. It simply is not realistic to believe that Republicans would now substantially cut real purchasing power for these programs when they have substantially increased them during the last four years.

The budget resolution's unrealistic claims regarding appropriations thus ensure that the Republican tax cut would eat into the Social Security surplus. The Republicans would not extend Social Security or Medicare solvency by even a single day. Over ten years, they would not devote any portion of the on-budget surplus to debt repayment to prepare the government's finances for the

## Outlays for Domestic Appropriations Past vs. Future



fiscal pressures associated with the Baby Boom generation's retirement. And, starting in 2002, they would risk invading the Social Security surplus, which Democrats and Republicans have publicly promised to save.

## **Republican Cuts to Domestic Appropriations Will Not Occur**

The House-passed budget resolution calls for cutting outlays for non-defense discretionary programs by \$117 billion over five years from the level needed to maintain current purchasing power. This plan for domestic appropriations is portrayed as funding "increases" because dollar amounts increase, though not enough to keep pace with inflation. This is misleading. When funding does not keep pace with rising prices, it provides fewer real resources and services. So, a funding increase that does not maintain constant purchasing power for the FBI means fewer FBI agents.

Republican Congresses have increased outlays for domestic appropriations **faster** than inflation (see chart) every year since 1996. While excoriating domestic spending in the abstract, Republicans have voted not only to maintain real purchasing power but to increase it.

Republicans have shied away from the real program cuts that their rhetoric calls for because they have not been willing to reduce the services that these programs provide. If one looks at the programmatic implications of the cuts in purchasing power required by the budget resolution, it becomes obvious why the Republicans have not made these cuts in the past and will not make them now or in the future.

Domestic appropriations for 2001 in the House-passed resolution are \$7 billion below a "hard freeze" at the 2000 level. This constitutes a cut of \$20 billion, or more than 6 percent, below the level needed to maintain constant purchasing power. Even this understates the severity of the cuts to some programs because the resolution calls for selected funding increases for veterans' health care, NIH research, and special education. Increasing funding for these programs requires that all other domestic appropriations bear additional offsetting cuts. The resolution does not spell out how to achieve these cuts, some of which are outlined below.

- Cutting 310,000 low-income women, infants, and children from WIC assistance in 2001 alone, and more each year;
- Cutting 1,000 FBI agents and 800 Drug Enforcement Administration agents by 2005;
- Cutting home energy assistance to 164,000 low-income families in 2001 during a period when oil prices are climbing;



- Providing Pell Grants to 316,000 fewer college students by 2005;
- Eliminating Head Start services for more than 40,000 children and their families by 2005;
- Cutting funds to clean up 40 Superfund sites by 2005;
- Cutting the Community Development Block Grant, Rural Community Advancement, Empowerment Zones, and Economic Development Assistance programs by one-third by 2005; and
- Cutting energy research by almost one-third by 2005 even though the recent increase in oil and gasoline prices underscores the need for developing alternative energy sources.

How the House-passed resolution accomplishes these difficult and harmful cuts is a mystery since the resolution appears to jettison existing budget enforcement mechanisms. The resolution is silent about both the discretionary spending caps and the pay-as-you-go (PAYGO) rules, even though its spending and tax totals would violate existing law on these matters. The President proposes new appropriations caps, set at levels that approximately keep purchasing power constant. However, the budget resolution ignores PAYGO, breaks the caps in current law, fails to propose new caps, and offers no guidance about what, if anything, other committees should do about these budget rules.

The fact that the resolution proposes no budgetary enforcement rules for the prescribed cuts such as new caps or extension of the PAYGO rules may well be an indication that Republicans themselves do not believe their cuts will occur.

## **Republican Budget Sacrifices All Other Priorities to Tax Cuts**

The Republicans rejected numerous attempts to change their budget resolution in committee mark-up. Democrats offered amendments to reduce the tax cut to extend Social Security and Medicare solvency, to pay down more publicly held debt, and to boost the resolution's funding for education, health care, economically vulnerable people, law enforcement, and farmers. In each case, the Republican majority voted *en bloc* to reject any attempt to redirect the resources they devote to tax cuts.

Clearly, the Republicans' overriding priority is unchanged from previous years: to achieve large tax cuts irrespective of the consequences for Social Security and Medicare, debt reduction, or crucial government programs. Last year's Republican tax cut, which cost \$156 billion over five years before swelling to \$792 billion over ten years, failed because it was fiscally irresponsible. This year's tax cut, which costs \$200 billion over five years and could cost \$1 trillion or more over ten years, takes the same approach.

The most convincing evidence that Republicans are willing to sacrifice all other budget priorities is that they moved large tax bills through the House before even proposing a budget resolution. Including the cost of debt service, the tax cuts already passed by the House would cost \$456 billion over ten years, which would consume more than half the on-budget surplus if there is zero real growth in appropriations. These cuts constitute a huge claim on the projected surpluses, a claim that Republicans have staked without any consideration of a coherent budget plan that addresses the full range of budget priorities.

This is not the way the system is supposed to work. Republicans have diminished the credibility of the budget process and the budget resolution. For the third consecutive year, they have moved ahead with tax cuts, the bigger the better, with barely a thought about Social Security and Medicare solvency, debt reduction, or any other budget issue.

Democrats want to repair the budget process. The Democratic alternative budget resolution provided a realistic plan to provide for budget priorities. It devoted some of the projected surplus to tax cuts targeted to working families, but it also provided sufficient resources for other important priorities.

To Democrats, no priority is greater than using the nation's hard-won surpluses to make Social Security and Medicare strong and solvent. Crucial to this outcome will be devoting a significant portion of the on-budget surplus to reducing the publicly held debt. In addition, Democrats want to make achievable and prudent investments in programs about which the country cares deeply within the context of overall fiscal discipline.

## **Ignoring Long-Term Needs of Social Security and Medicare**

The House-passed budget resolution fails to take any steps to extend the solvency of Social Security and Medicare. In fact, the resolution is silent on the most important fiscal challenge facing the nation. Republicans repeatedly have rejected President Clinton's proposals to dedicate the benefits of debt reduction to Social Security and Medicare solvency, even though the nonpartisan actuaries have certified that the President's plan extends solvency. But, in this Republican resolution, the Budget Committee offers the Congress no guidance for an alternative approach to the most serious budget issue of the day.

Still worse, the House-passed resolution reduces the on-budget surplus to exactly zero starting in 2002 and sets the budget on track to spend the Social Security surplus after 2005. Both political parties have pledged to save the Social Security surplus and not use it to fund any other government activities. By itself, this does nothing to improve the finances of Social Security and Medicare. However, both parties agree that walling off the Social Security surplus is important because paying down public debt means the government will be better able to provide the resources these hallmark programs will need.

Because the House-passed resolution probably spends the Social Security surplus for other purposes after 2005, it reduces less public debt. If we instead saved all of the Social Security surplus, we would reduce the publicly held debt by \$976 billion over five years and \$2.3 trillion over ten years. Beyond this, Democrats advocate using a significant portion of the on-budget, or non-Social Security, surplus for additional debt reduction so that the \$3.5 trillion debt can be extinguished as early as 2013.

Virtually all economists, including Federal Reserve Chairman Alan Greenspan, agree that reducing the publicly held debt is a crucial, if indirect, way to prepare for the fiscal challenges facing Social Security and Medicare. First, substantially reducing publicly held debt improves the government's finances. Interest payments on the national debt currently constitute the third largest single spending item in the government's budget, costing \$224 billion this year. Eliminating or significantly reducing this mandatory expenditure would greatly improve the government's books.

In addition, economists contend that eliminating the government's borrowing needs bolsters the economy in various ways. When private-sector borrowers face less competition from the government, interest rates are lower and more capital is available for private investment. This added investment boosts productivity, real wages, and economic growth. A larger and more productive future economy can more easily bear the burden of a sizeable dependent population when the Baby Boom generation retires.

Republicans may claim that their budget does pay off publicly held debt at an accelerated pace because the resolution shows on-budget surpluses in the first five years. Unfortunately, this claim

results from double-counting. The resolution includes a so-called reserve fund of \$50 billion for part of the Republicans' tax cut and another \$40 billion reserve fund for Medicare reform and a prescription drug benefit. If Republicans fail to achieve their full tax cut and fail to provide a prescription drug benefit, then the money in these reserve funds would reduce debt. Such debt reduction automatically occurs whenever part of the surplus is not explicitly devoted to some other purpose, irrespective of the existence of a reserve fund.

However, Republicans have repeatedly insisted that they fully intend to "reform" Medicare and provide a prescription drug benefit and to "make a significant down payment" on the \$483 billion five-year tax cut advocated by their presumptive presidential candidate, Governor George W. Bush. They cannot use this money twice. They cannot spend \$40 billion for a prescription drug benefit and \$50 billion for additional tax cuts while also claiming that debt is reduced by the same \$90 billion. Republicans' adamant insistence that they will fulfill their promises for a drug benefit and a large tax cut indicates that these items clearly are a higher priority for them than debt reduction.

The Republican budget plan provides large tax cuts but no reassurance for the future because it does nothing to extend the solvency of the Social Security or Medicare trust funds. If we believe their assertions about providing a Medicare prescription drug benefit and their full tax cut, then their budget resolution eats into the Social Security surplus in the future. This budget does not meet our nation's long-term responsibilities.

## **The Republican Budget Resolution Uses Up the Entire Surplus — and Maybe More**

**All figures exclude the Social Security surplus; negative signs indicate savings; dollars in billions**

	2000	2001	2002	2003	2004	2005	Five years	Ten years*
CBO Surplus w/o Social Security	27	15	29	36	42	48	171	893
Tax cuts (before use of "reserve")		10	22	31	42	45	150	750
Non-defense cuts** including timing shifts	12	-16	-13	-21	-30	-37	-117	-377
Defense increases		3	2	2	3	2	12	23
Farm payments	6	1	1	2	2	2	7	18
Extend expiring Customs Service fee					-1	-2	-3	-13
Medicaid/CHIP access and benefits		a	a	a	a	a	1	2
Interest costs of policies	a	1	1	2	3	4	11	75
Surplus claimed by Republicans	8	17	16	20	24	33	110	415
Reserve for \$50 billion additional tax cuts***		5	10	10	10	15	50	250
Reserve for Medicare "reform" and drugs***		2	5	8	11	14	40	155
Interest cost of reserves		a	1	2	3	4	10	80
Surplus/Deficit(-) when reserves are used	8	10	0	0	0	0	10	-70

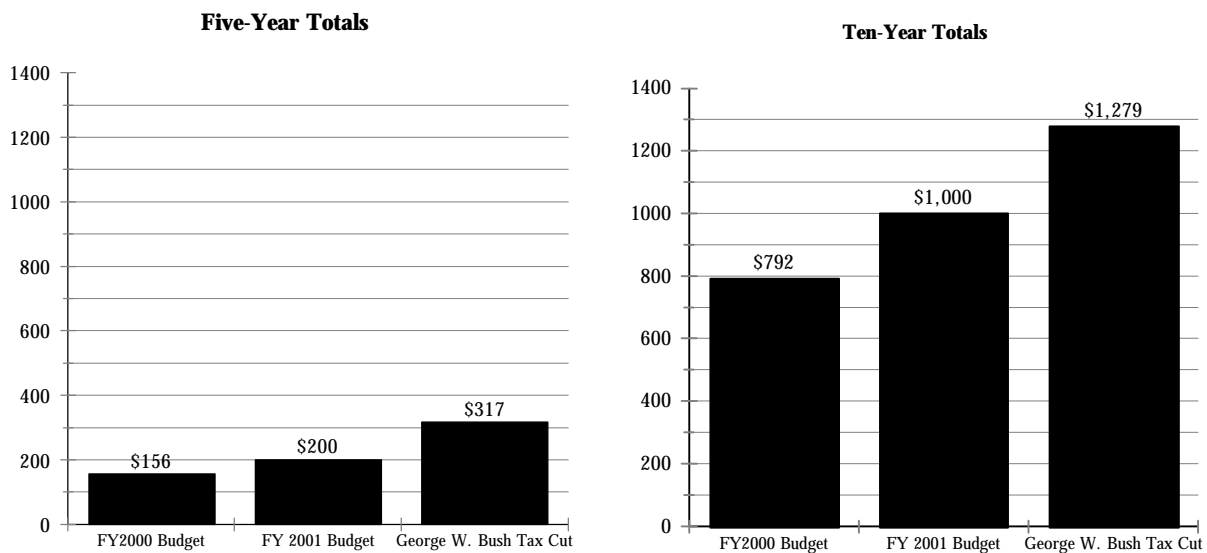
*see notes on pages 1 and 2*

## Revenues

The centerpiece of the House-passed budget resolution is a large tax cut that is likely to exceed the tax package Republicans proposed last year. That tax cut resulted in a direct revenue loss of \$156 billion over five years and \$792 billion over ten years. Because enacting such a tax cut would reduce the pace of debt reduction assumed in the baseline, last year's cut had a total cost of \$929 billion over ten years once the associated debt service costs were added.

This year's Republican tax cut costs \$200 billion over five years. Unlike last year's budget resolution, this year's resolution does not show the ten-year cost. However, tax cuts tend to grow over time because of phased-in provisions and the growth of the tax base as the economy expands. For instance, the ten-year cost of last year's tax cut was more than five times its five-year cost. Assuming that the pace of the phase-in for this year's bill is similar to last year's, this year's proposed tax cut could cost \$1 trillion over ten years. If one includes the added debt service, the total cost of the resolution's tax cut could easily exceed \$1 trillion.

### Cost of Republican Tax Cuts (in billions of dollars)



Because Republicans give overriding primacy to tax cuts over other budget priorities, the House passed two tax cut bills this session before the Congress even considered a budget resolution. With legislation that passed the House last session, the budget must accommodate the following three major tax bills: an attempt to address the marriage penalty; a package of cuts attached to the increase in the minimum wage; and a medical access bill based on tax preferences, which is in conference.

The table below shows the budgetary costs of these three bills. With the associated debt service costs, these bills consume more than half of the on-budget surplus under a scenario that assumes zero real growth in appropriations. In addition to the bills that already have passed the House, Republicans have announced their intention to move legislation for tax-preferred education savings accounts, expanded IRAs, reduced or suspended motor fuels excise taxes, and tax preferences for local economic development.

**Republican Tax Cuts That Already Have Passed the House**  
(JCT scoring, in billions of dollars)

	2001	2001-2005	2001-2010
H.R. 6, Marriage penalty bill	4.1	50.7	182.3
H.R. 3832, Minimum wage tax provisions	2.4	45.3	122.3
H.R. 2990, Health access	0.6	13.0	68.5
<b>Total with duplicating provisions removed</b>	<b>6.8</b>	<b>106.8</b>	<b>371.0</b>
Debt service	0.2	12.2	83.1
<b>Total including debt service</b>	<b>7.0</b>	<b>119.1</b>	<b>454.0</b>

Although Republicans used a parliamentary maneuver to avoid voting on the package of tax cuts proposed by their presumptive presidential candidate, Governor George W. Bush, they adamantly insisted during Budget Committee mark-up that they considered this year's resolution "a significant down payment" on the Bush tax cut. In addition to many provisions already passed in other tax legislation this year, the Bush tax cut also features significant cuts in tax rates. Such lower rates substantially increase the revenue loss of the Bush tax cut. The Bush campaign claims that these tax proposals cost \$483 billion over five years (starting in 2002). Their ten-year cost is estimated by some to be **at least** \$1.3 trillion for 2002 through 2011.

A tax cut of this magnitude would force even greater use of the Social Security surplus, even more severe cuts in domestic appropriations, or both. This is illustrated in the following table.

## The Republican Budget Resolution With the Bush Tax cut

**All figures exclude the Social Security surplus; negative signs indicate savings; dollars in billions**

	2000	2001	2002	2003	2004	2005	Five years	Ten years*
CBO Surplus w/o Social Security	27	15	29	36	42	48	171	893
Bush tax cut*		10	25	68	85	129	317	1,279
Non-defense cuts** including timing shifts	12	-16	-13	-21	-30	-37	-117	-377
Defense increases		3	2	2	3	2	12	23
Reserve for Medicare "reform" and drugs***		2	5	8	11	14	40	155
Farm payments	6	1	1	2	2	2	7	18
Extend expiring Customs Service fee					-1	-2	-3	-13
Medicaid/CHIP access and benefits		a	a	a	a	a	1	2
Interest costs of policies	a	1	2	4	8	13	27	236
Surplus/Deficit(-)	8	15	7	-26	-35	-73	-113	-430

"a" means "less than \$½ billion"

\* Estimates employ the following assumptions: 1) Both defense and non-defense discretionary spending grow in nominal terms after 2005 at the same rate the Budget Resolution proposes for 2001-2005. 2) Tax cuts equal \$10 billion in 2001, as specified in the budget resolution. They grow to \$438 billion over the five-year period 2002-2006, as specified by the Bush campaign. Its year-by-year path is as estimated by the Committee on Tax Justice. The tax cuts are assumed to be completely phased in by 2006, and so grow only as fast as the economy thereafter. 3) Other specified policies are as estimated by CBO, and the Medicare "reserve" for 2006-2010 equals the amounts requested by the President, as estimated by CBO.

\*\* "Non-defense" figures include the 2000 supplemental appropriations bill as reported by the House Appropriations Committee, including both defense and non-defense amounts. As reported, that bill shifts \$7.0 billion of outlays out of 2001 and into 2000 through the repeal of previously enacted timing shifts, and the Budget Resolution assumes another \$2.4 billion in such repeals/shifts, for a total of \$9.4 billion. (Note that on March 29 the House amended the supplemental appropriations bill to add another \$4.1 billion in budget authority.)

\*\*\* This "Medicare reserves," which equals \$40 billion over five years, is not contingent upon improvements in the economy. It becomes available when the committees of jurisdiction report legislation using it and the Chairman of the Budget Committee adjusts the aggregates and allocations in the Budget Resolution accordingly. The reserve is only available for legislation that is deemed to be "reform" (that term is undefined). The Budget Resolution specifies the first-year costs of the \$40 billion in Medicare reserves (\$2.0 billion). The Budget Resolution does not specify the year-by-year path of the remaining \$38 billion of Medicare reserves over the period 2002-2005. However, subsequent to House agreement on the Budget Resolution, the Republican staff of the House Budget Committee supplied the assumed year-by-year figures for the reserve shown above.

## Appropriated Programs

Appropriated programs, also known as “discretionary” programs, are those controlled by the annual appropriations process. The House-passed budget resolution provides large tax cuts premised on totally unrealistic non-defense appropriations cuts that Republican Congresses have been unable and unwilling to make. If Congress provides these tax cuts but cannot make the huge cuts in domestic programs, the Republicans will spend the Social Security surplus and will reduce publicly held debt much less than the Democratic alternative offered by House Democrats. Reducing debt is critical to ensuring that the government has the resources needed for funding Social Security and Medicare when the Baby Boom generation retires. In short, the House-passed budget is an unrealistic and fiscally irresponsible budget blueprint.

- **Overview** — The House-passed plan provides for slightly more than zero real growth for defense but makes deep cuts in non-defense appropriations. The House-passed plan is \$6.9 billion below a 2000 freeze level for 2001 for non-defense appropriations, and just slightly above a 2000 freeze level for 2002 - 2005. The table on the next page compares the numbers in the House-passed plan to the level needed to maintain current services (constant purchasing power) for 2001 and 2005. As the table indicates, funding for non-defense programs for 2001 is cut 6.4 percent (\$19.7 billion) in purchasing power. By 2005, the House-passed plan cuts funding for non-defense programs by 11.5 percent (\$39.4 billion) in purchasing power.
- **An “About Face” for Non-Defense Appropriations** — As the graph on page 16 illustrates, non-defense appropriations have increased every year over the last five years (1996-2000), but the House-passed plan assumes an “about face” that cuts these same programs deeply over the next five years. It assumes these unrealistic cuts in order to accommodate large tax cuts. If the tax cuts are enacted but these unrealistic cuts are not realized, on-budget deficits will resurface and Congress will tap into the Social Security surplus.
- **History Teaches Us That the House-passed Plan is Unrealistic** — Here are some facts to bear in mind when evaluating the plausibility of the funding levels in the House-passed plan for non-defense appropriations:
  - The annual real (inflation adjusted) rate of growth for non-defense appropriations since 1962 has been 2.8 percent.
  - Since 1987, there has been only one year, 1996, in which non-defense outlays did not record a real increase.



**Non-defense Discretionary Comparison:  
House Republican Budget Resolution  
Loss or Gain in Real Purchasing Power**

	House Republican Budget Resolution		Percent Above (+)/Below (-) Current Services	
	(In Billions of Dollars)		Percent	Percent
	2001	2005	2001	2005
150 International Affairs				
Budget authority	19.7	18.3	-13%	-25%
Outlays	21.3	18.2	-3%	-23%
250 General Science, Space				
Budget authority	20.2	21.0	3%	-0%
Outlays	19.3	20.5	0%	-1%
270 Energy				
Budget authority	2.8	2.2	-9%	-30%
Outlays	2.8	2.3	-8%	-27%
300 Natural Resources and Environment				
Budget authority	24.3	24.7	-2%	-10%
Outlays	24.1	24.5	-1%	-9%
350 Agriculture				
Budget authority	4.5	4.5	-2%	-11%
Outlays	4.4	4.4	-3%	-12%
370 Commerce and Housing Credit				
Budget authority	2.7	3.0	-67%	-67%
Outlays	3.2	3.0	-60%	-66%
400 Transportation				
Budget authority	15.7	16.8	5%	1%
Outlays	48.2	53.3	1%	-1%
450 Community and Regional Development				
Budget authority	9.1	8.5	-22%	-32%
Outlays	11.7	8.5	-1%	-30%
500 Education and Training				
Budget authority	56.8	60.7	3%	2%
Outlays	52.9	57.7	-0%	-2%
550 Health				
Budget authority	35.0	37.1	1%	-1%
Outlays	34.0	35.8	0%	-1%
570 Medicare				
Budget authority	3.1	3.1	-2%	-15%
Outlays	3.1	3.1	-2%	-14%
600 Income Security				
Budget authority	35.2	38.8	-14%	-19%
Outlays	41.9	42.5	-1%	-11%
650 Social Security				
Budget authority	3.4	3.6	3%	-3%
Outlays	3.3	3.6	1%	-2%
700 Veterans				
Budget authority	22.2	23.8	2%	-3%
Outlays	22.0	23.6	2%	-3%
750 Administration of Justice				
Budget authority	26.9	27.9	-2%	-9%
Outlays	27.1	27.7	-2%	-9%
800 General Government				
Budget authority	12.4	12.4	-5%	-16%
Outlays	13.0	12.4	-3%	-14%

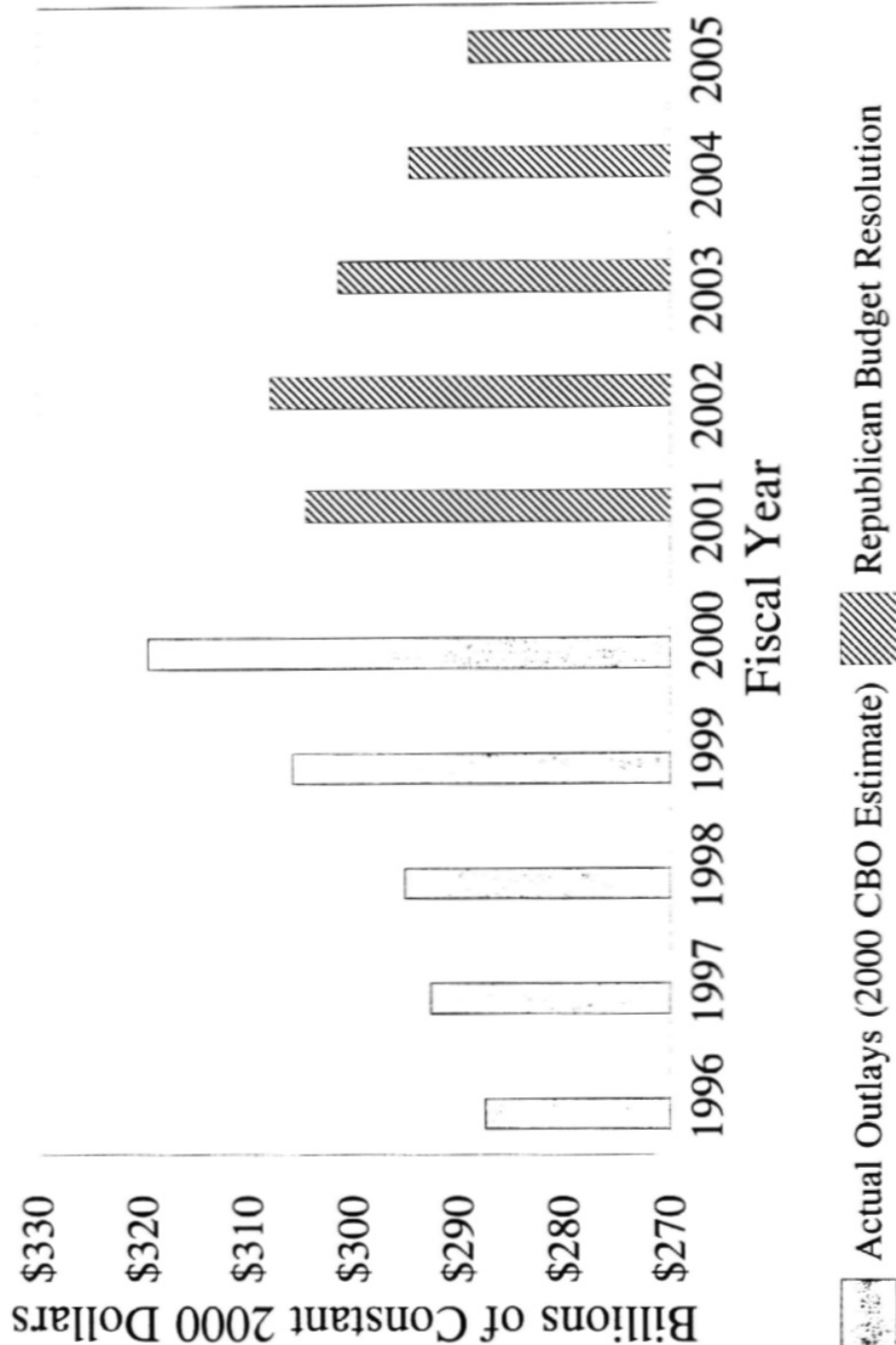
- As the graph on page 16 illustrates, from 1996 through 2000, the Republican Congress has increased non-defense spending by an average annual rate of 2.5 percent in real terms. (Note: This is the same annual average rate of increase as the Democratic-controlled Congress in the 1990-1994 period.)
- The House-passed versions of the 2000 appropriations bills exceeded the 2000 House-passed budget by \$30.7 billion even before these bills reached the President's desk. This refutes the claim of some Members that the appropriations bills have only increased under a Republican Congress because of a Democratic President.

History teaches us that Republican Congresses have been unwilling to hold non-defense spending to zero real growth. In fact, as the graph indicates, the rate of growth of non-defense appropriations is accelerating, not declining, under the Republican Congress.

- ***Examples of What These Cuts Will Mean*** — As in 1998 and 1999, the Congress is unlikely to make the cuts required by the House-passed budget. However, it is worth taking the House-passed plan at face value and considering the impact of the cuts. It will wreak havoc on many programs, including the following examples:
  - Cutting 310,000 low-income women, infants, and children from WIC assistance in 2001 alone, and more each year thereafter;
  - Cutting 1,000 FBI agents and 800 Drug Enforcement Administration agents by 2005;
  - Cutting home energy assistance to 164,000 low-income families in 2001 just as oil prices are climbing;
  - Providing Pell Grants to 316,000 fewer low-income students by 2005;
  - Eliminating Head Start services for more than 40,000 children and their families by 2005;
  - Cutting funds to clean up 40 Superfund sites by 2005;
  - Cutting the Community Development Block Grant, Rural Community Advancement, Empowerment Zones, and Economic Development Assistance programs by one-third by 2005; and
  - Cutting energy research by almost one-third by 2005 even though the recent increase in oil and gasoline prices underscores the need for developing alternative energy sources.
- ***Masking the Cuts*** — The House-passed plan attempts to mask its large cuts to non-defense appropriations in several ways. First, it targets the International Affairs, Community and Regional Development, and General Government functions for disproportionately large cuts, but does not specify the particular programs to be cut. The “savings” from these functions keep many other functions at or above a freeze level in an attempt to appear more

# Outlays for Domestic Appropriations

Past vs. Future



reasonable than past Republican budgets. However, it is a virtual certainty that the targeted functions cannot be cut by the amounts in the House-passed plan. See *Function 150*, *Function 450*, and *Function 800* for further discussion.

Second, the House-passed plan contains unspecified cuts totaling \$18.5 billion over the 2001-2005 period in Function 920, an obscure “catch-all” function that the Republicans have used in the past to assume cuts without specifying even the functions to be cut. In fact, the night before the budget resolution came to the House floor, the Republicans succumbed to last-minute pressure to increase funding for science by adding \$3.0 billion over five years to Function 250 (Science) and cutting an additional \$5.9 billion from Function 920. Thus, the budget has an even less realistic level of unspecified cuts in non-defense funding than the level approved by the Budget Committee; this makes it even less likely that Congress can stay within the funding limit. See *Function 920* for further discussion.

Third, some Members may claim that since the House-passed plan keeps many non-defense programs at a 2000 freeze level, it does not cut non-defense appropriations. This is a specious argument. A freeze level by definition cuts the purchasing power of programs, and these cuts compound over time. The truth is that the House-passed plan cuts the purchasing power (as measured by outlays) of most non-defense appropriation functions by more than 10 percent in 2005. This translates into a \$117 billion cut by 2005 in non-defense appropriations.

Fourth, Republicans take credit for selected spending initiatives, such as increases for the National Institutes of Health (NIH), while failing to specify the cuts needed to other programs within that function to provide the selected increases. For example, to fund increases for NIH research, cuts must be made for the Ryan White AIDS program, the Centers for Disease Control, Indian Health Services, the Ricky Ray Hemophilia fund, the Food and Drug Administration, and other programs and agencies critical to public health. The House-passed plan does not spell out its assumptions on what programs will be cut.

- ***Lack of Fiscal Discipline*** — The 1990 bipartisan Budget Enforcement Act imposed statutory dollar limits or “caps” on budget authority and outlays for appropriations for the years 1991 to 1995. It created a “sequestration” mechanism to make across-the-board cuts automatically if, at the end of each session of Congress, OMB determined that Congress had breached the caps. The discretionary caps were extended through 1998 when President Clinton’s first budget was enacted in 1993, and the Balanced Budget Act of 1997 (BBA) revised and extended these caps through 2002. The discretionary caps, in conjunction with the “pay as you go” (PAYGO) rules for mandatory programs, were the primary tools of fiscal discipline that reversed the federal budget from chronic deficits to the current forecast of ongoing surpluses.

The President's 2001 budget proposes a new set of caps through 2010 that approximates what is necessary to keep appropriations at a zero real growth level (the level needed to preserve purchasing power by staying even with inflation). This year, both Republicans and Democrats agree that the existing caps are unrealistic. While there is not a bipartisan agreement on an appropriate level of appropriations, it is noteworthy that the House-passed plan breaks the existing caps yet fails to impose and extend new caps. This omission suggests that the Republicans themselves may not consider their appropriations cuts to be realistic.

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### ***Discretionary Spending As a Percentage of Gross Domestic Product (GDP)***

According to the non-partisan budget watchdog group, the Concord Coalition, "as a share of GDP, non-defense discretionary spending is now at its lowest level since LBJ announced his 'Great Society' program in 1965." Under the House-passed plan, non-defense discretionary spending as a percentage of GDP drops from 3.3 percent in 2000 to 2.8 percent in 2005. Older historical records of government spending do not exist in sufficient detail to indicate the last time non-defense appropriations comprised such a low percentage of GDP.

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- ***Summary of Republican***

***Appropriations: Misleading, Inadequate, and Unsound*** — The House-passed plan devotes most of the on-budget surplus to its tax cut, leaving non-defense appropriations at unrealistic levels. The Republican majority tries to obscure the political implausibility of its budget resolution by providing little detail about the specific programs to be cut and by concentrating the cuts in several functions that fund necessary government responsibilities but are politically less glamorous.

Earlier this year, Speaker Hastert cautioned that "it's not realistic to say that we are going to freeze budgets for the next ten years." The House-passed plan essentially freezes non-defense appropriations for the next five years. Unlike the Democratic alternative, the House-passed plan does not reveal what it will do in the second five years. The reason is simple: the Republicans have to freeze non-defense appropriations for a full ten years in order to accommodate their tax cuts, which historically grow much more quickly in the second five years.

Last year's Republican budget plan proved unworkable when Congress could not cut non-defense programs nearly as much as the plan assumed. This year, the House-passed plan follows the same course, but hopes to avoid last year's problems by not telling the whole story. The House-passed plan cloaks the truth about how many necessary government services Congress would have to cut and about the growing expense of the tax cut in 2006-2010 in order to appear more reasonable than last year's plan. Just as it was last year, however, the budget is unrealistic and fiscally unsound.

## The Budget by Function

The following three tables show the House-passed budget resolution by functional category. The first table shows the total budget (mandatory and discretionary) for each budget function. The second table shows the budget for appropriated (discretionary) funding, which is funding controlled by the annual appropriations process. The final table shows the budget for mandatory spending, which is spending provided through authorizing legislation. Mandatory spending includes entitlement programs such as Medicare, Medicaid, and Social Security, as well as interest payments on the federal debt. Detailed descriptions of each function (except *Function 900: Net Interest*, which is directly tied to the funding levels in the other budget functions and revenues) follow the tables.

**HOUSE REPUBLICAN FY 2001 BUDGET RESOLUTION**  
**TOTAL BUDGET**  
(In billions of dollars)

	2000	2001	2002	2003	2004	2005	5 Yr. Total
Budget Authority	1,801.8	1,858.8	1,903.2	1,962.3	2,025.1	2,099.6	9,849.0
Outlays	1,784.0	1,825.5	1,882.3	1,940.1	2,002.3	2,076.7	9,726.9
Revenues	1,945.1	2,001.1	2,064.3	2,135.7	2,210.7	2,301.4	10,713.2
Surplus	161.1	175.6	182.0	195.6	208.4	224.7	986.3
050 National Defense							
Budget authority	288.9	306.3	309.3	315.6	323.4	331.7	1586.3
Outlays	282.5	297.6	302.0	309.4	317.6	328.1	1554.7
150 International Affairs							
Budget authority	20.1	19.5	19.3	18.8	18.3	18.5	94.4
Outlays	15.5	17.3	17.2	16.1	15.2	14.8	80.6
250 General Science, Space							
Budget authority	19.3	20.3	20.4	20.6	20.8	21.0	103.1
Outlays	18.5	19.4	20.0	20.0	20.2	20.5	100.1
270 Energy							
Budget authority	1.1	1.2	0.7	0.5	0.4	0.3	3.1
Outlays	-0.6	-0.1	-0.4	-0.7	-0.9	-0.9	-3.0
300 Natural Resources and Environment							
Budget authority	24.3	25.0	25.1	25.2	25.3	25.4	126.0
Outlays	24.2	24.8	25.1	25.2	25.2	25.1	125.4
350 Agriculture							
Budget authority	35.7	19.1	18.5	17.6	17.0	15.8	88.0
Outlays	34.3	16.9	16.7	15.9	15.5	14.2	79.2
370 Commerce and Housing Credit							
Budget authority	8.5	6.9	9.0	10.3	13.6	13.5	53.3
Outlays	4.1	2.9	5.3	5.5	8.7	9.6	32.0
400 Transportation							
Budget authority	54.3	59.2	57.4	58.8	58.8	58.8	293.0
Outlays	46.6	50.3	52.5	54.8	55.1	55.1	267.8
450 Community and Regional Development							
Budget authority	11.2	9.1	8.5	8.4	8.4	8.5	42.9
Outlays	10.8	11.1	9.7	8.8	8.3	7.8	45.7
500 Education and Training							
Budget authority	57.7	72.6	74.0	75.0	76.1	77.8	375.5
Outlays	61.4	69.2	72.1	73.2	73.5	74.2	362.2
550 Health							
Budget authority	159.3	169.7	179.6	191.5	205.6	221.7	968.1
Outlays	152.3	167.1	177.9	190.6	205.0	220.3	960.9
570 Medicare							
Budget authority	199.6	217.7	226.6	247.7	266.3	292.7	1251.0
Outlays	199.5	218.0	226.6	247.5	266.5	292.7	1251.3
600 Income Security							
Budget authority	238.4	252.2	263.0	272.1	281.7	294.0	1363.0
Outlays	248.0	254.9	264.3	273.4	283.2	295.9	1371.7
650 Social Security							
Budget authority	405.0	422.8	443.0	463.8	486.0	510.1	2325.7
Outlays	405.0	422.7	443.0	463.7	485.9	510.1	2325.4
700 Veterans							
Budget authority	46.0	47.8	49.0	50.8	52.0	55.3	254.9
Outlays	45.2	47.4	48.9	50.6	51.7	54.9	253.5
750 Administration of Justice							
Budget authority	27.3	28.0	27.8	27.9	28.2	28.4	140.3
Outlays	28.0	28.0	28.0	27.9	27.9	28.1	139.9
800 General Government							
Budget authority	13.9	13.6	13.6	13.5	13.5	13.6	67.8
Outlays	14.7	14.2	13.9	13.7	13.7	13.5	69.0
900 Net Interest							
Budget authority	224.6	219.2	210.8	196.8	182.3	166.9	976.0
Outlays	224.6	219.2	210.8	196.8	182.3	166.9	976.0
920 Allowances							
Budget authority	8.5	-4.7	-2.1	-2.6	-4.3	-4.4	-18.1
Outlays	11.5	-8.7	-1.0	-2.2	-4.0	-4.3	-20.2
950 Undistributed Offsetting Receipts							
Budget authority	-41.8	-46.7	-50.2	-50.2	-48.2	-50.1	-245.4
Outlays	-41.8	-46.7	-50.2	-50.2	-48.2	-50.1	-245.4

Note: Rounding errors exist because House Republican budget resolution only available to tenths of billions.  
Estimates by HBC Democratic Staff. Distributed by Rep. John Spratt.

**HOUSE REPUBLICAN FISCAL YEAR 2001 BUDGET RESOLUTION**  
**DISCRETIONARY TOTALS**  
(In billions of dollars)

	2000	2001	2002	2003	2004	2005	5 Yr. Total
<b>Total Discretionary</b>							
Budget Authority	578.2	596.5	607.3	615.6	623.6	634.4	3,077.4
Outlays	615.2	622.1	639.2	647.9	654.4	665.6	3,229.2
<b>Non-defense discretionary</b>							
Budget Authority	288.3	289.2	297.1	299.1	299.4	301.9	1,486.7
Outlays	331.7	323.5	336.3	337.6	336.0	336.7	1,670.1
 050 National Defense							
Budget authority	289.9	307.3	310.2	316.5	324.2	332.5	1590.7
Outlays	283.5	298.6	302.9	310.3	318.4	328.9	1559.1
150 International Affairs							
Budget authority	22.3	19.7	19.3	18.8	18.3	18.3	94.4
Outlays	20.1	21.3	21.0	19.8	18.7	18.2	99.0
250 General Science, Space							
Budget authority	19.2	20.2	20.4	20.6	20.8	21.0	103.0
Outlays	18.4	19.3	19.9	19.9	20.2	20.5	99.8
270 Energy							
Budget authority	2.6	2.8	2.6	2.4	2.2	2.2	12.2
Outlays	3.0	2.8	2.7	2.5	2.3	2.3	12.6
300 Natural Resources and Environment							
Budget authority	24.0	24.3	24.4	24.5	24.6	24.7	122.5
Outlays	23.7	24.1	24.4	24.5	24.5	24.5	122.0
350 Agriculture							
Budget authority	4.5	4.5	4.5	4.5	4.5	4.5	22.5
Outlays	4.5	4.4	4.4	4.4	4.4	4.4	22.0
370 Commerce and Housing Credit							
Budget authority	6.9	2.7	3.1	3.1	3.1	3.0	15.0
Outlays	7.3	3.2	3.0	3.0	3.1	3.0	15.3
400 Transportation							
Budget authority	14.4	15.7	16.3	16.8	16.8	16.8	82.4
Outlays	44.3	48.2	50.8	52.9	53.2	53.3	258.4
450 Community and Regional Development							
Budget authority	11.4	9.1	8.5	8.5	8.5	8.5	43.1
Outlays	11.5	11.7	10.3	9.5	9.0	8.5	49.0
500 Education and Training							
Budget authority	44.5	56.8	57.7	58.7	59.7	60.7	293.6
Outlays	49.1	52.9	55.8	57.2	57.5	57.7	281.1
550 Health							
Budget authority	33.7	34.9	35.5	36.0	36.5	37.0	179.9
Outlays	28.9	33.9	33.8	34.7	35.2	35.7	173.3
570 Medicare							
Budget authority	3.1	3.1	3.1	3.1	3.1	3.1	15.5
Outlays	3.1	3.1	3.1	3.1	3.1	3.1	15.5
600 Income Security							
Budget authority	29.9	35.2	38.3	38.5	38.6	38.8	189.4
Outlays	42.4	41.9	42.2	42.2	42.3	42.5	211.1
650 Social Security							
Budget authority	3.2	3.4	3.4	3.5	3.6	3.6	17.5
Outlays	3.2	3.3	3.4	3.4	3.5	3.6	17.2
700 Veterans							
Budget authority	20.9	22.2	22.6	23.0	23.4	23.8	115.0
Outlays	20.4	22.0	22.6	22.9	23.2	23.6	114.3
750 Administration of Justice							
Budget authority	26.6	26.9	27.1	27.3	27.6	27.9	136.8
Outlays	27.2	27.1	27.2	27.2	27.4	27.7	136.6
800 General Government							
Budget authority	12.6	12.4	12.4	12.4	12.4	12.4	62.0
Outlays	13.1	13.0	12.7	12.6	12.4	12.4	63.1
920 Allowances							
Budget authority	8.5	-4.7	-2.1	-2.6	-4.3	-4.4	-18.1
Outlays	11.5	-8.7	-1.0	-2.2	-4.0	-4.3	-20.2
950 Undistributed Offsetting Receipts							
Budget authority	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Outlays	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Note: Rounding errors exist because House Republican budget resolution only available to tenths of billions.

HBC Democratic Staff



**HOUSE REPUBLICAN BUDGET RESOLUTION**  
**MANDATORY, NET INTEREST, AND OFFSETTING RECEIPTS ONLY**  
(In billions of dollars)

	2000	2001	2002	2003	2004	2005	5-yr. Total
Budget Authority	1,223.6	1,262.3	1,295.9	1,346.7	1,401.5	1,465.2	6,771.6
Outlays	1,168.8	1,203.4	1,243.1	1,292.2	1,347.9	1,411.1	6,497.7
050 National Defense							
Budget authority	-1.0	-1.0	-0.9	-0.9	-0.8	-0.8	-4.4
Outlays	-1.0	-1.0	-0.9	-0.9	-0.8	-0.8	-4.4
150 International Affairs							
Budget authority	-2.2	-0.2	0.0	0.0	0.0	0.2	0.0
Outlays	-4.6	-4.0	-3.8	-3.7	-3.5	-3.4	-18.4
250 General Science, Space							
Budget authority	0.1	0.1	0.0	0.0	0.0	0.0	0.1
Outlays	0.1	0.1	0.1	0.1	0.0	0.0	0.3
270 Energy							
Budget authority	-1.5	-1.6	-1.9	-1.9	-1.8	-1.9	-9.1
Outlays	-3.6	-2.9	-3.1	-3.2	-3.2	-3.2	-15.6
300 Natural Resources and Environment							
Budget authority	0.3	0.7	0.7	0.7	0.7	0.7	3.5
Outlays	0.5	0.7	0.7	0.7	0.7	0.6	3.4
350 Agriculture							
Budget authority	31.2	14.6	14.0	13.1	12.5	11.3	65.5
Outlays	29.8	12.5	12.3	11.5	11.1	9.8	57.2
370 Commerce and Housing Credit							
Budget authority	1.6	4.2	5.9	7.2	10.5	10.5	38.3
Outlays	-3.2	-0.3	2.3	2.5	5.6	6.6	16.7
400 Transportation							
Budget authority	39.9	43.5	41.1	42.0	42.0	42.0	210.6
Outlays	2.3	2.1	1.7	1.9	1.9	1.8	9.4
450 Community and Regional Development							
Budget authority	-0.2	0.0	0.0	-0.1	-0.1	0.0	-0.2
Outlays	-0.7	-0.6	-0.6	-0.7	-0.7	-0.7	-3.3
500 Education and Training							
Budget authority	13.2	15.8	16.3	16.3	16.4	17.1	81.9
Outlays	12.3	16.3	16.3	16.0	16.0	16.5	81.1
550 Health							
Budget authority	125.6	134.8	144.1	155.5	169.1	184.7	788.2
Outlays	123.4	133.2	144.1	155.9	169.8	184.6	787.6
570 Medicare							
Budget authority	196.5	214.6	223.5	244.6	263.2	289.6	1235.5
Outlays	196.4	214.9	223.5	244.4	263.4	289.6	1235.8
600 Income Security							
Budget authority	208.5	217.0	224.7	233.6	243.1	255.2	1173.6
Outlays	205.6	213.0	222.1	231.2	240.9	253.4	1160.6
650 Social Security							
Budget authority	401.8	419.4	439.6	460.3	482.4	506.5	2308.2
Outlays	401.8	419.4	439.6	460.3	482.4	506.5	2308.2
700 Veterans							
Budget authority	25.1	25.6	26.4	27.8	28.6	31.5	139.9
Outlays	24.8	25.4	26.3	27.7	28.5	31.3	139.2
750 Administration of Justice							
Budget authority	0.7	1.1	0.7	0.6	0.6	0.5	3.5
Outlays	0.8	0.9	0.8	0.7	0.5	0.4	3.3
800 General Government							
Budget authority	1.3	1.2	1.2	1.1	1.1	1.2	5.8
Outlays	1.6	1.2	1.2	1.1	1.3	1.1	5.9
900 Net Interest							
Budget authority	224.6	219.2	210.8	196.8	182.3	166.9	976.0
Outlays	224.6	219.2	210.8	196.8	182.3	166.9	976.0
920 Allowances							
Budget authority	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Outlays	0.0	0.0	0.0	0.0	0.0	0.0	0.0
950 Undistributed Offsetting Receipts							
Budget authority	-41.8	-46.7	-50.2	-50.2	-48.2	-50.1	-245.4
Outlays	-41.8	-46.7	-50.2	-50.2	-48.2	-50.1	-245.4

Note: Rounding errors exist because House Republican budget resolution only available to tenths of billions.

HBC Democratic Staff

## Function 050: National Defense

The National Defense function includes funding for the Department of Defense (DOD), the nuclear weapons-related activities of the Department of Energy, and national defense activities in various other agencies, such as the Coast Guard and the Federal Bureau of Investigation. The DOD represents about 95 percent of this function.

- **Overview** — For 2001, the House-passed budget resolution provides \$307.3 billion for national defense appropriations. This level of funding is an \$8.9 billion (1.6 percent) increase in purchasing power, and is \$17.4 billion (6.0 percent) more than the 2000 freeze level. As is discussed in greater detail in *Appropriated Programs*, both the House-passed resolution and the President's budget represent slight real growth for national defense for the next five years. However, since the total level for overall appropriations is well below the level necessary to maintain zero real growth, the House-passed resolution sharply cuts non-defense appropriations.
- **A De Facto Bipartisan Agreement on Defense** — Despite the rhetoric from some Members, the House-passed resolution is almost the same funding level as the President's. For 2001, the House-passed resolution is only \$1.0 billion more than the President's budget, an increase of three-tenths of one percent. The House-passed resolution is just \$2.1 billion (one-tenth of one percent) more than the President's budget over the 2001-2005 period. The striking similarity of the President's budget to the House-passed resolution is noteworthy in light of the widely reported requests of the Service Chiefs for at least \$15 billion more in additional funding for DOD for 2001 alone. The emphatic rejection of the Service Chiefs' requests in the House-passed resolution and the convergence to the President's budget indicates a *de facto* bipartisan agreement on overall defense funding levels.
- **The House-passed Resolution Ignores Health Care Needs for Military Retirees Over Age 65** — The Chairman of the Joint Chiefs of Staff, Gen. Henry Shelton, has testified that guaranteeing life-time health care is not only important to keeping the promises made to those who dedicated their careers to military service, but also to attract and retain quality personnel today. Currently, military retirees over the age of 65 lose guaranteed access to the Department of Defense (DOD) health care system. The House-passed resolution does not allot any funding for 2001 or any of the next four years to improve health care access for military retirees over the age of 65. The House-passed resolution contains no increases in this function or two other functions (Function 550, Health and Function 570, Medicare) that would be appropriate choices to display funding for such an initiative.
- **The House-passed Resolution Does Not Provide Military Retirees Over Age 65 DOD Prescription Drug Coverage** — A chief complaint of military retirees is that they lose

guaranteed access to DOD's prescription drug coverage plans when they turn 65. The House-passed resolution provides \$1.0 billion more than the President's request for 2001, and thus Congress may appropriate funding to permit Medicare-eligible military retirees to retain DOD prescription drug coverage for 2001. However, whether Congress will actually provide such funding for these military retirees is arguable for three reasons. First, nothing in the House-passed resolution suggests that the \$1 billion increase for 2001 appropriations is for military retiree health care or prescription drug coverage. Secondly, because the House-passed resolution does not provide mandatory funding for DOD prescription drug coverage for these military retirees, any appropriations funding for this purpose for 2001 will have to compete with other defense priorities, such as readiness and procurement shortfalls identified by the Joint Chiefs of Staff. Third and most telling, the House-passed resolution does not provide enough defense appropriations for 2002-2005 to continue guaranteed access to DOD prescription drug coverage because it is never more than \$300 million above the President's request for those years. DOD estimates that prescription drug coverage will require \$455 million for 2001 alone, and increases each year thereafter by more than the rate of inflation. In short, the House-passed resolution could provide, at most, a one-year-only solution to the prescription drug issue.

- ***The Democratic Alternative*** — The alternative budget offered by House Democrats to the House-passed resolution contained \$16.3 billion over ten years (2001-2010) specifically for health care initiatives for military retirees over the age of 65. The Democratic alternative included funding to cover the major provisions of H.R. 3655, a bill introduced by Reps. Neil Abercrombie, Ike Skelton, and Gene Taylor. Over that ten-year period, the Democratic alternative provides \$5.4 billion for a prescription drug initiative, and \$10.9 billion to improve access for Medicare-eligible military retirees nationwide to the DOD health care system. The Democratic alternative also directed the Armed Services Committee to design the plan to meet these needs. The Democratic alternative was defeated on a mostly party-line vote.

## Function 150: International Affairs

The International Affairs function includes a wide range of programs and activities, including operation of U.S. embassies and consulates throughout the world, military assistance to allies, aid to developing nations, economic assistance to fledgling democracies, promotion of U.S. exports abroad, U.S. payments to international organizations, and peacekeeping efforts. This function has represented about one percent of all federal outlays since 1992.

- **Overview** — The House-passed budget resolution provides \$19.7 billion for international affairs appropriations for 2001. This level of funding is a \$3.0 billion (13.2 percent) cut in purchasing power. By 2005, the level in the House-passed resolution represents a 25.1 percent cut in purchasing power. The House-passed resolution assumes no policy changes that will affect mandatory spending or offsetting receipts within the international affairs function.
- **Implausible Funding Levels** — As discussed in *Appropriated Programs*, the House-passed resolution disproportionately cuts funding for international affairs appropriations, without specifying programs to be cut, in an attempt to mask its unrealistic cuts to overall non-defense appropriations. Thus, the international affairs function is emblematic of the unwise and politically implausible assumptions upon which the House-passed resolution rests. For example, the cuts in the House-passed resolution would:
  - Cut resources needed to fund anti-narcotics efforts throughout the world, including anti-heroin efforts in Asia and anti-cocaine efforts in Latin America;
  - Severely curtail efforts to improve U.S. embassy security, a widely-recognized priority since the devastating terrorist attacks against U.S. embassies in Kenya and Tanzania in August, 1998;
  - Jeopardize current U.S. assistance to the Middle East, which is vital to maintaining stability in a region critical to U.S. economic and national security interests, as well as raise doubts about the credibility of the U.S. to provide the resources necessary to facilitate future peace agreements between Israel, the Palestinian authority, and Syria;
  - Sharply reduce modest but critical assistance to countries struggling to become free-market democracies in Eastern Europe and the former Soviet Union;
  - Further reduce U.S. humanitarian and economic development assistance, despite the fact that the U.S. already ranks 21<sup>st</sup> in the world in terms of foreign aid as a percent of gross national product (GNP);<sup>1</sup> and

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<sup>1</sup>Data is from the Organization for Economic Cooperation and Development's 1999 Development Cooperation Report, February, 2000. The OECD measurement is based on its definition of "official development assistance," consisting of grants or concessional loans to developing countries to promote economic development. Military assistance is not considered official development assistance. U.S. economic assistance to Israel is excluded because Israel is not considered a developing country by the OECD. The U.S.

- Shut down embassies and consulates throughout the world and cut staffing at others, hurting the interests of American businesses and tourists.
- **“One-Time Costs”** — Some Republicans may claim that this function can be cut below 2000 levels because the 2000 level included “one-time” costs for the Wye River Middle East Peace Agreement and repayment of U.S. back dues (arrears) to the United Nations. This reasoning is flawed for three reasons. First, even excluding the Wye River and U.N. arrears funding, the House-passed resolution cuts the purchasing power for U.S. international programs by 3.8 percent for 2001 and by 17 percent for 2005. Second, while it is true that those specific one-time costs are not expected to occur again, other currently unforeseen one-time costs could occur. For instance, it is possible that one or more agreements promoting peace in the Middle East could be reached within the next few years. Third, 2000 funding levels for other priorities that enjoy strong bipartisan support, such as more aggressive efforts to curb narcotics trafficking and increasing security at U.S. embassies, are considered inadequate by many Members on both sides of the aisle. Depending on the levels assumed for these programs, this may more than offset the cuts the House-passed resolution makes.

In short, any argument over the merits of including Wye River and U.N. arrears in a comparison of funding cannot change the bottom line: the House-passed resolution slashes funding for U.S. international and diplomatic funding.

- **Undercutting U.S. Foreign Policy** — The Chairman of the House International Relations Committee, Rep. Ben Gilman, wrote Chairman Kasich prior to mark-up of the budget resolution requesting the same level of funding for 2001 as the President requested (which was slightly more than what is needed to maintain constant purchasing power). Chairman Gilman thought this level would be appropriate because:

“Most of the programs under our jurisdiction are uniquely the responsibility of the federal government and are strongly related to protecting the national security.”

The House-passed resolution instead cuts the President’s request by 13 percent, raising serious questions about the ability to promote U.S. national security through diplomacy. The House-passed resolution is plainly unrealistic in the funding it provides for international programs.

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level is one-tenth of one percent of GNP, which is a quarter of the average percentage among developed countries. Countries that provide more foreign aid as a percent of GNP than the U.S. include Japan, Australia, France, Ireland, Italy, Luxembourg, New Zealand, Portugal, and Spain. In total amount of foreign aid, the U.S. ranks second, \$1.9 billion behind Japan.

## Function 250: General Science, Space, and Technology

This function includes the National Aeronautics and Space Administration (NASA), the National Science Foundation (NSF), and general science programs within the Department of Energy (DOE).

For 2001, the House-passed budget plan provides \$20.2 billion in appropriated funding for science programs, which includes \$100 million that the Democrats added during Committee consideration of the budget.

- ***Republicans Add \$500 Million After Committee Mark-up*** — The night before bringing the resolution to the House floor, Republicans imposed an additional \$500 million in unspecified cuts in non-defense funding in Function 920 (Allowances) and added the \$500 million to Function 250 for 2001. Over five years (2001-2005), Republicans added an additional \$3 billion to Function 250. However, to finance this increase, the Republicans cut an additional \$5.9 billion from Function 920. See *Function 920* for more details.
- ***Democrats Increase Funding for NSF*** — The last-minute funding increase is only slightly less than what Democrats, led by Congressman Rush Holt (D-NJ), tried to provide during Committee mark-up. Congressman Holt offered an amendment to increase funding for NSF by \$675 million (17 percent) for 2001. Republicans reduced the increase to only \$100 million before accepting the scaled-back amendment.

## Function 270: Energy

Function 270 comprises energy-related programs including research and development (R&D), energy conservation, environmental clean-up, and rural utility loans. Most of the programs are within the Department of Energy (DOE), although the rural utility program is part of the Department of Agriculture.

The House-passed resolution provides \$2.8 billion in discretionary funding for Function 270. This level of funding is a \$271 million (8.8 percent) cut in purchasing power for 2001. At a time when the nation is facing a crisis over rising gasoline prices and our dependence on imported oil, the House-passed resolution actually provides **less** funding for energy research and conservation programs each subsequent year until it freezes funding at \$2.2 billion for 2004. By 2005, the level in the House-passed resolution represents an astounding 29.8 percent cut in purchasing power, a loss of almost one-third of the total value. The House-passed resolution is silent about how much it cuts specific programs, but the programs subject to these cuts include the following:

- **Energy Supply R&D** — An across-the-board cut would decrease purchasing power for applied energy R&D by \$58 million for 2001. By 2005, the level in the House-passed resolution would cut purchasing power by \$209 million.
- **Fossil Energy R&D** — Assuming an across-the-board cut, the House-passed resolution decreases purchasing power for 2001 by \$37 million for programs to help industry develop ways to produce and use coal, oil, and gas resources more efficiently. By 2005, the level in the House-passed resolution represents a \$137 million cut in purchasing power for these programs.
- **Nuclear Waste Disposal** — The Department of Energy uses nuclear waste disposal funding to help find a permanent method to dispose of its high-level radioactive waste and spent nuclear fuel. Under an across-the-board cut, the House-passed resolution cuts purchasing power for these programs by \$21 million for 2001. By 2005, the level of funding is a \$77 million cut in purchasing power.

## Function 300: Natural Resources and Environment

Function 300 includes programs in a variety of federal agencies concerned with: the development and management of the nation's land, water, and mineral resources; recreation and wildlife areas; and environmental protection and enhancement. Agencies with major program activities within this function include: the Environmental Protection Agency (EPA); the Army Corps of Engineers; the National Oceanic and Atmospheric Administration; the US Forest Service; and the Department of the Interior. This function does not include the large-scale environmental clean-up programs at the Departments of Energy and Defense (see *Function 050: National Defense* and *Function 270: Energy*).

For 2001, the House-passed budget resolution provides \$24.3 billion for natural resources and environmental appropriations. This level of funding represents a \$460 million (1.9 percent) cut in purchasing power. The House-passed resolution continues to cut the purchasing power of these programs in the following four years. By 2005, the level in the House-passed resolution represents a \$2.6 billion (9.6 percent) cut in purchasing power.

- ***No Room for the Lands Legacy Initiative***— The House-passed resolution does not specify any assumptions regarding the President's Lands Legacy Initiative, but the funding levels leave little room for the President's proposal. For 2001, the President proposed to double the funding for certain land and water conservation programs to \$1.4 billion. The lack of available funding means that the federal government passes up the opportunity to acquire critical lands surrounding America's natural treasures. It also means no new funding to help states and localities adopt "smart growth" strategies, preserve open space, and restore urban parks.
- ***Continued State and Local Assistance Placed in Jeopardy***— The House-passed resolution could translate into a reduction in the assistance provided to states and localities for environmental infrastructure. In 2000, EPA provided \$2.6 billion in grants to finance wastewater and drinking water treatment plants, but even this amount did not fully address the needs of many communities.
- ***No Help for Ailing National Parks***— The House-passed resolution likely entails a cut in purchasing power for the National Park Service, which means longer waits for much-needed upgrades to the facilities that serve millions of park visitors each year.
- ***Potential Delays in Water Resources Projects***— The Army Corps of Engineers designs, builds, and often operates and maintains projects that provide river and harbor navigation, flood control, water supply, wildlife protection, and recreation. The House-passed resolution's cuts in purchasing power could mean delays in harbor-deepening projects or in the construction of flood protection projects.



- ***Scale-back of Interior Operations Likely*** — Cuts in the purchasing power of the Department of Interior would likely translate into employee reductions or furloughs, since most of the agency's expenses are for salaries and related costs. Personnel reductions in turn could lead to longer delays in approvals for grazing permits and other land use permits (e.g., coal, timber, oil, and gas).

## Function 350: Agriculture

Farm income stabilization, agricultural research, and other services administered by the U.S. Department of Agriculture (USDA) are funded within Function 350. The discretionary programs include: research, education, and rural development programs; economics and statistics services; meat and poultry inspection; a portion of the Public Law (P.L.) 480 international food aid program; and administrative costs. The mandatory programs include commodity programs, crop insurance, and certain farm loans.

The House-passed budget resolution increases mandatory spending to help farmers by \$6.0 billion in 2000 and by \$7.2 billion for the period 2001-2005. However, the House-passed resolution partially negates this increase by freezing appropriated funding to administer the farm programs, culminating in an 11 percent cut in purchasing power by 2005.

- **Help for Farmers** — The House-passed resolution increases mandatory spending for agriculture programs by \$6.0 billion in 2000 for additional income support payments and by a total of \$7.2 billion for the period 2001 through 2005. Although the House-passed resolution allows the Committee on Agriculture to use the \$7.2 billion for crop insurance or income assistance, the amounts within the resolution match the most recent cost estimate for H.R. 2559, the crop insurance reform bill passed by the House last September.
- **A Genuine Reserve Fund** — Unlike the phantom reserve funds for tax cuts and Medicare reform, a true reserve fund for agriculture is provided in the House-passed resolution. Function 350 reflects increases of \$6.0 billion in 2000 and \$7.2 billion in 2001 through 2005. Unfortunately though, the Republicans showed they would not give agriculture spending the same priority as tax cuts because they include reconciliation directives for their tax cuts but not for agriculture. When Democrats offered an amendment during mark-up to establish reconciliation directives to the Agriculture Committee, Republicans rejected the amendment.
- **More Money, but the Right Solution?** — The additional 2000 spending provided in the House-passed resolution is expected to double the statutory Agricultural Market Transition Act (AMTA) payment farmers received in October under the 1996 Farm Bill. This will assist certain farmers in need, but the AMTA payments are no longer well-targeted. Originally designed to compensate landowners whose land values decrease because of declining federal farm programs, AMTA has become a poor substitute for income support. Money meant to aid farmers is often delivered instead to absentee landowners. In addition, the payments are not directed to commodities that have experienced significant price declines. Therefore, farmers who grow commodities that continue to deliver reasonable market return are eligible for the payments along with farmers who are struggling to keep their farms because of low prices. Several income support proposals, for example those

put forth by Agriculture Committee Ranking Member Charlie Stenholm and President Clinton, improve upon the fixed payment structure under the current farm bill. These plans are more counter-cyclical in nature, providing more help when times are bad and less assistance when conditions improve. Such renovations of federal farm programs are not likely to occur under current Congressional Leadership until reauthorization of the Farm Bill in 2002.

- ***The Big Tease*** — While the House-passed resolution more money available through farm programs, it also makes it harder for the money to reach farmers. The House-passed resolution includes \$4.5 billion for appropriated programs for 2001, a cut of \$130 million in purchasing power. The House-passed resolution reduces the value of discretionary agriculture programs \$1.6 billion over five years.

Farmers gain access to federal farm programs through USDA field offices. These field offices have faced staffing shortages and funding squeezes for the past several years, forcing long lines at the counter and delays in processing checks. Funding reductions have led to hiring freezes: currently two field office employees must leave (taking their training with them) before a single new employee can be hired. In other words, field offices have fewer personnel who are burdened with ever-increasing amounts of work that much larger staff struggled to finish. The House-passed resolution only compounds this problem.

The House-passed resolution provides room for larger farm payments while making the programs themselves impossible to administer. If the field office staff cannot do their jobs, farmers do not get their money. The House-passed resolution, if adopted, could mean that fewer and fewer farmers will actually get the help they need — and that Congress has approved — in a timely fashion.

## Function 370: Commerce and Housing Credit

Function 370 includes the following: deposit insurance and financial regulatory agencies; the mortgage credit programs of the Department of Housing and Urban Development (HUD); the Department of Commerce's Census Bureau, business promotion programs, and technology development programs; rural housing loans; Small Business Administration business loans; the Postal Service; and other regulatory agencies such as the Federal Communications Commission.

Under the House-passed budget resolution, appropriated funding for Function 370 drops to \$2.7 billion for 2001, a decrease of \$4.2 billion from the 2000 level. Although the House-passed resolution does not explain this sharp decrease, it most likely reflects the culmination of the 2000 census. After backing out the cost of the census, however, the 2001 funding level is still \$1.2 billion (30 percent) below the level required to maintain current purchasing power. For years 2002 to 2005, the appropriated funding levels for this function represent cuts in purchasing power of at least 20 percent. The House-passed resolution makes no net changes to mandatory spending for this function.

- ***Small Business Programs at Risk*** — The cuts in discretionary funding for this function could translate into a massive scale-back of the loan programs of the Small Business Administration (SBA). For example, a 30 percent cut in SBA's business loan programs would mean a decrease of \$5.4 billion in the value of business loans guaranteed by the agency. A similar cut in SBA's disaster loan program would mean that \$260 million less would be available for direct loans to individuals and businesses in areas struck by natural disasters.
- ***Rural Housing Loans*** — A 30 percent cut to the Department of Agriculture's program for rural housing loans would mean \$450 million less in direct loans and \$1.2 billion less in guaranteed loans. This would decrease the availability of affordable housing for low-income families in rural areas.

## Function 400: Transportation

Function 400 is comprised mostly of the programs administered by the Department of Transportation, including programs for highways, mass transit, aviation, and maritime activities. The function also includes several small transportation-related agencies and the civilian aviation research program of the National Aeronautics and Space Administration (NASA).

For Function 400, the House-passed budget resolution provides \$59.2 billion in budgetary resources (appropriated budget authority plus mandatory contract authority) for 2001, \$7.4 billion more than the 2000 level of \$51.8 billion. However, the House-passed resolution also assumes an increase in mandatory contract authority of \$2.5 billion for 2000, reflecting the recent reauthorization of the Federal Aviation Administration's (FAA's) Airport Improvement Program. When this amount is added to the 2000 funding level, the increase for 2001 is \$4.9 billion over the 2000 level. Of that increase, \$1.3 billion is appropriations for transportation programs, a 9 percent increase over the 2000 level.

- ***Highways and Transit*** — The Transportation Equity Act for the 21<sup>st</sup> Century (TEA-21) constrains the role of the annual budget and appropriations process with respect to transportation funding. For example, TEA-21 ties obligation limitations for federal-aid highways for each year to the excise tax revenues that accrue to the Highway Trust Fund during the prior year and adjusts the guaranteed minimum level of highway resources annually. Following the rules in TEA-21, the Administration adjusted the 2001 funding level upward by \$3.1 billion. The minimum levels are guaranteed by a point of order against appropriations bills that do not provide sufficient funding. One can reasonably assume, therefore, that most of the increase in mandatory contract authority for 2001 is for highways and mass transit.
- ***Other Transportation Programs Squeezed*** — While most highway and transit programs (and some aviation programs) are funded with mandatory contract authority, appropriated budget authority funds the other transportation programs. The House-passed resolution provides \$15.7 billion in appropriations for 2001, \$1.3 billion (9 percent) more than the 2000 level. However, because Congress recently passed the conference agreement on H.R. 1000, which reauthorizes the FAA, almost all of this increase will go for aviation programs. H.R. 1000 constrains the appropriations process so that it will be very difficult for appropriators to provide anything less than the funding levels authorized in the Act. The authorization levels in H.R. 1000 for the appropriated portions of FAA's budget are almost \$1.4 billion (17.2 percent) higher than the 2000 appropriations. As a result, the funding for other transportation programs such as the Coast Guard, rail programs, and the Department of Transportation's administration will be frozen at or slightly below the 2000 level.

The House-passed resolution continues to squeeze these other transportation programs in the following years. The modest increases in appropriated funding provided in 2002 and 2003 accommodate only the increased spending that H.R. 1000 all but guarantees for the FAA. By 2003 (the last year covered by H.R. 1000), programs like Coast Guard and Amtrak face a cut in purchasing power of 8.9 percent. For 2004 and 2005, the House-passed resolution freezes all appropriated funding for transportation programs at \$16.8 billion. For 2005, that freeze translates to a 13 percent cut in purchasing power for the Coast Guard and the other appropriated transportation programs.

## Function 450: Community and Regional Development

Federal support for community and regional development helps economically distressed urban and rural communities. Major agencies and programs included in this function are the Empowerment Zones, the Community Development Block Grant, the Economic Development Administration, the Appalachian Regional Commission, rural development programs in the Department of Agriculture, the Bureau of Indian Affairs, the Federal Emergency Management Agency, and the Small Business Administration's disaster loan program.

The House-passed budget resolution is able to provide modest increases in some budget areas in part by gutting community and regional development programs. For 2001, the House-passed resolution provides only \$9.1 billion for community and regional development appropriations. This level of funding is a \$2.6 billion (21.9 percent) cut in purchasing power and is \$2.3 billion (20.5 percent) below the 2000 freeze level. The House-passed resolution continues to cut these programs in years 2002 through 2005, providing \$8.5 billion in each of these years. By 2005, the level in the House-passed resolution represents an unrealistic \$4 billion (32.3 percent) cut in purchasing power and is \$2.9 billion (25.7 percent) below the 2000 freeze level.

The House-passed resolution does not outline specific cuts for community and regional development programs. However, the cuts in the House-passed resolution are deep enough to eliminate all discretionary appropriations for the Federal Emergency Management Agency (FEMA) and its disaster relief programs. This would mean that the House-passed resolution implausibly assumes that over the next five years the nation will not experience a single national disaster that requires federal assistance. Alternatively, the House-passed resolution could assume across-the-board cuts for all programs in this function in years 2001 through 2005. Following is an outline of the impact of across-the-board cuts on several programs in this function under the House-passed resolution:

- ***Community Development Block Grants (CDBGs)*** — CDBGs provide funds to help communities improve housing and public works. Assuming across-the-board reductions, the House-passed resolution represents a \$1.1 billion cut in purchasing power for CDBGs for 2001 and a \$1.0 billion cut below the 2000 freeze level. By 2005, the across-the-board reduction for CDBGs represents a \$1.7 billion cut in purchasing power and a \$1.3 billion cut below the 2000 freeze level.
- ***Federal Emergency Management Agency (FEMA)/ Disaster Relief Programs*** — FEMA aids communities devastated by severe weather and other natural disasters. Assuming across-the-board reductions, the House-passed resolution represents a \$600 million cut in purchasing power for 2001 and a \$560 million cut below the 2000 freeze level. By 2005, the across-the-board reduction for FEMA represents a \$1.0 billion cut in purchasing power and a \$800 million cut below the 2000 freeze level.

- ***Bureau of Indian Affairs (BIA)*** — BIA provides services and assistance for Native American communities. Assuming across-the-board reductions, the House-passed resolution represents a \$200 million cut in purchasing power for BIA for 2001 and a \$180 million cut below the 2000 freeze level. By 2005, the across-the-board reduction represents a \$330 million cut in purchasing power and a \$260 million cut below the 2000 freeze level.
- ***Rural Community Advancement Program*** — The Rural Community Advancement Program provides grants and loans to assist development in rural communities. Assuming across-the-board reductions, the House-passed resolution represents a \$154 million cut in purchasing power for the Rural Community Advancement Program for 2001 and a \$140 million cut below the 2000 freeze level. By 2005, the across-the-board reduction represents a \$240 million cut in purchasing power and a \$175 million cut below the 2000 freeze level.
- ***Empowerment Zones*** — The Empowerment Zone program provides grants for economically distressed urban and rural communities that demonstrate innovative plans for revitalization. Assuming across-the-board reductions, the House-passed resolution represents a \$16 million cut in purchasing power for Empowerment Zones for 2001 and a \$14 million cut below the 2000 freeze level. By 2005, the across-the-board reduction for Empowerment Zones represents a \$24 million cut in purchasing power and a \$16 million cut below the 2000 freeze level.
- ***Economic Development Administration (EDA) Assistance Programs*** — EDA programs provide assistance to alleviate unemployment and underemployment in economically distressed communities. Assuming across-the-board reductions, the House-passed resolution represents an \$81 million cut in purchasing power for 2001 and a \$72 million cut below the 2000 freeze level. By 2005, the across-the-board reduction represents a \$126 million cut in purchasing power and a \$91 million cut below the 2000 freeze level.



## **Function 500: Education, Training, Employment, and Social Services**

Function 500 includes funding for the entire Department of Education, social services programs within the Department of Health and Human Services, and employment and training programs within the Department of Labor.

The House-passed budget resolution provides \$56.8 billion for discretionary funding for Function 500 for 2001. This represents an increase of \$1.4 billion above the level necessary to maintain purchasing power, and \$2.2 billion above a freeze at the 2000 level. However, the Republicans have stated that their entire increase is for elementary and secondary education programs, and virtually all of it is for special education. This means that the House-passed resolution unrealistically freezes funding for all other education programs and all social services, employment, and training programs for five years. Overall, the House-passed resolution provides \$4.7 billion less for 2001, and \$19.8 billion less over five years (2001-2005) than President Clinton's budget and the Democratic alternative budget.

- ***Republicans Freeze Higher Education and Social Services*** — The Republicans assert that their entire increase for Function 500 is for elementary and secondary education programs, meaning that they freeze all other programs at last year's funding levels. That freeze means a \$1.1 billion cut in purchasing power for higher education programs, social services programs, and training and employment programs. By 2005, the level in the House-passed resolution represents an 8.5 percent cut in purchasing power for these important programs. This loss of purchasing power translates into real cuts in the numbers of people who can benefit from these programs each year. For instance, by 2005:
  - ***Pell Grants*** — About 316,000 fewer low-income students would receive Pell Grants to help attend college than in 2000; and
  - ***Head Start*** — Head Start would have to cut services to more than 40,000 children and their families.
- ***Minimal Increase for Most Elementary and Secondary Education Programs*** — The House-passed resolution includes a Sense of Congress statement assigning almost all of their funding increase (at least \$2.0 billion) to special education programs. That would leave \$200 million at most for all other elementary and secondary education programs, which is not enough to preserve their current level of services. This would mean that Title I would provide educational services to a smaller percentage of low-income students, school districts could hire and train fewer new teachers, and after-school and summer school programs could not expand significantly.

- ***Republicans Do Not Let Education Spending Equal the Funding Levels*** — Much of the increase for special education in the House-passed resolution is a mirage. Although it adds \$2.2 billion for 2001 compared with the 2000 freeze level, the House-passed resolution only lets the Department of Education spend \$200 million of that increase. Over the years, the disparity grows between the amount of budget authority the House-passed resolution provides and the amount of actual spending (outlays) it allows.<sup>2</sup> Over five years, despite adding \$20.3 billion in budget authority, the House-passed resolution provides only \$9.3 billion in additional outlays. Simply put, the Republicans do not provide the cash (outlays) to match their rhetoric (measured in budget authority).
- ***Democrats Try to Increase Funding for High Priority Education Programs*** — During Committee consideration of the Republican resolution, the Democrats offered an amendment to provide \$2.5 billion more for 2001 (\$15.2 billion over the period 2001-2005) for the following three programs: (1) the third installment of the President’s initiative to improve student achievement and teaching by hiring 100,000 teachers over seven years to reduce the average size of classes in the early grades; (2) assistance for school renovation and construction through loans, grants, and tax credits; and (3) increasing the maximum Pell Grant award to \$3,500. Every Republican voted against the amendment.
- ***Democrats Offer “Full Funding” for Special Education*** — During the Committee’s mark-up of the Republican resolution, the Democrats offered an amendment to provide “full funding” of the federal government’s maximum authorized contribution for special education. This amendment would have provided \$9.2 billion more for 2001 than the Republican total for special education simply by decreasing the size of their tax cut. Unfortunately, when faced with the opportunity to provide this funding, the Republicans refused to do so. Instead of *actually providing* this federal funding for special education, they diluted the amendment to merely repeat their Sense of Congress statement that Congress *should provide* this funding.

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<sup>2</sup>Budget authority refers to the amount of funding an agency may commit or obligate. Outlays refer to actual cash disbursements. For example, if Congress provides \$2.0 billion in budget authority for special education, local educational agencies (LEAs) can begin making plans to sign contracts with new teachers for special education classes. The LEAs do not pay the teachers their annual salary immediately, but over the course of the academic year. These payments are recorded as outlays. In addition, because most education programs need time to plan for the coming academic year, the funding provided for one fiscal year primarily pays for costs in the following academic year. For these “forward funded” programs, the government releases budget authority on July 1 for the academic year beginning that fall. Most of the associated outlays, therefore, occur in the following fiscal year that begins on October 1.

## Function 550: Health

In Function 550, discretionary programs (programs subject to annual appropriations) include most federal programs that provide direct health care services. Other health programs in the function fund national biomedical research, protect the health of the general population and workers in their places of employment, provide health services for under-served populations, and promote training for the health care workforce. The major mandatory programs in this function are Medicaid and the State Children's Health Insurance Program (S-CHIP). For 2001, funding for the National Institutes of Health (NIH) represents over half (54.1 percent) of all discretionary funding and Medicaid accounts for 92.2 percent of the mandatory spending in Function 550.

### Health Programs Subject to Annual Appropriations

Overall, the House-passed budget resolution provides \$34.9 billion for discretionary health programs for 2001. This represents a modest increase in purchasing power of 1.2 percent for 2001 for these programs. Over five years (2001-2005), funding for discretionary health programs is \$179.9 billion. By 2005, purchasing power is cut slightly (-0.9 percent). The resolution does not contain explicit assumptions regarding the funding of discretionary health programs except for increases in NIH and Clinical Training and Research Awards for Alzheimer's Disease. Given the modest increase in overall funding for this function, the specified increases for NIH and Alzheimer's awards mean that the level provided in the House-passed resolution is insufficient to preserve all other health programs at their current level of services.

- **National Institutes of Health (NIH)** — For 2001, the House-passed resolution increases NIH funding by \$1.0 billion (5.6 percent) over the 2000 level, and freezes it at that level thereafter. The 2001 level in the House-passed resolution is identical to the President's request. NIH accounts for 54.1 percent of all discretionary health funding in the House-passed resolution.

For 1999 and 2000, Congress on a bipartisan basis voted to increase NIH funding by 15 percent per year. Many in Congress are committed to doubling NIH funding by 2003 relative to the 1998 level. However, the increase for 2001 provided in the House-passed resolution is insufficient to continue the 15 percent annual increases required to double NIH funding by 2003.

- **Alzheimer's Disease Clinical Training and Research Awards** — The amended Republican resolution includes new funding proposed by Rep. Ed Markey (D-MA) for research and clinical training for Alzheimer's disease. The plan provides \$2.3 million for 2001, and \$11.3 million over five years (2001-2005).

- ***Other Health Programs*** — The House-passed resolution provides a modest increase in overall funding for health programs for 2001. However, when the \$1.0 billion increase for NIH is excluded from the increase, the resulting level is insufficient to preserve all other health programs at their current level of services.

## **Medicaid and the State Children’s Health Insurance Program (S-CHIP)**

The House-passed resolution increases spending slightly for Medicaid and S-CHIP by \$100.0 million for 2001, and by \$600.0 million over five years (2001-2005), relative to projections of current law.

The amended Republican resolution includes the following program improvements proposed by Rep. Tammy Baldwin (D-WI) and Rep. Ken Bentsen (D-TX) to expand access to affordable health insurance for vulnerable people:

- ***Accelerated Medicaid and S-CHIP Enrollment*** — The House-passed resolution: (1) allows additional sites to enroll children immediately (presumptive eligibility) in the programs; (2) allows sharing of school lunch eligibility information; and (3) requires states to simplify and align their Medicaid and S-CHIP enrollment processes.
- ***Medicaid Only*** — The House-passed resolution includes a state option for Medicaid coverage and immediate eligibility for uninsured women who are diagnosed with breast or cervical cancer through the Centers for Disease Control’s screening program.

## Function 570: Medicare

Function 570 includes only the Medicare program. Discretionary funds (subject to annual appropriations) in Function 570 are used to monitor and administer the Medicare program. Medicare benefits comprise almost all of the mandatory spending in Function 570.

### Administrative Funds Frozen

For 2001, the House-passed budget resolution provides \$3.1 billion, the same as the 2000 level. Funds are frozen at this level for five years (2001-2005). For 2001, this represents a 2.4 percent cut in purchasing power; by 2005, a 14.9 percent cut.

- ***Effect of Cutting Funds to Prevent Fraud, Waste, and Abuse*** — Medicare's administrative funds are part of a pool of funds used by the Health Care and Financing Administration (HCFA) to prevent and detect fraud, waste, and abuse in the Medicare program. Although significant improvements were made in reducing Medicare's improper payment rate between 1996 and 1998 (a 45 percent reduction), the amount of errors is still too high (about \$13 billion annually). In fact, the level of improper payment rates rose slightly in 1999 over the 1998 rate. A cut in funds will not permit stepped up anti-fraud, waste, and abuse activities. It is ironic that Republicans have stepped up calls for elimination of waste, fraud, and abuse at the same time they reduce the pool of funds needed to do so.

### A Reserve Fund for Medicare

The House-passed resolution increases Medicare spending by \$40.0 billion over five years (2001-2005) relative to projections of current law by creating a reserve fund for Medicare. For 2001, the House-passed resolution increases Medicare spending by \$2.0 billion relative to projections of current law. The reserve fund provides for an undefined Medicare reform plan, and an undefined prescription drug benefit.

- ***Undefined Prescription Drugs*** — The House-passed resolution does not require that the undefined prescription drug benefit be available to all Medicare beneficiaries. Over half of those without Medicare drug coverage have incomes *above* 150 percent of poverty. A prescription drug benefit that targets only low-income beneficiaries ignores the needs of a majority of Medicare beneficiaries.
- ***Undefined Medicare Reform*** — The undefined Medicare reform package envisioned by the House-passed resolution may consist of increased provider payments or a major overhaul of the Medicare program. In the past, a key feature of Republican proposals to restructure Medicare has been replacing the current defined benefit with a defined contribution. This means ending the universal entitlement to health care and replacing it with a voucher covering a portion of a person's costs for an insurance plan.

## Function 600: Income Security

Function 600 consists of a range of income security programs that provide cash or near-cash assistance (e.g., housing, food, and energy assistance) to low-income persons, and benefits to certain retirees, persons with disabilities, and the unemployed. Major federal entitlement programs in this function include Supplemental Security Income (SSI), food stamps, Temporary Assistance to Needy Families (TANF), and child care. Section 8 housing and other housing assistance programs account for the largest share of discretionary spending in this function. Other key discretionary programs include the Special Supplemental Nutrition Program for Women, Infants, and Children (WIC), the Low Income Home Energy Assistance Program (LIHEAP), and the Child Care and Development Block Grant.

For 2001, the House-passed budget resolution provides \$35.2 billion for discretionary programs in Function 600, \$5.7 billion below the amount needed to maintain the current purchasing power of programs within this function. By 2005, discretionary funding falls \$9.1 billion in constant dollars under the House-passed resolution, a 19.1 percent loss in real purchasing power.

The House-passed resolution appears to be above a freeze in every year. This is misleading, however, because of the funding required to maintain Section 8 housing contracts. During the mark-up, Chairman Kasich stated that the Republican resolution included sufficient funding to renew all expiring Section 8 contracts. In order to provide the funds that the Congressional Budget Office estimates are needed to cover Section 8 renewals, funding for other discretionary programs within this function would have to be cut *below* a freeze. Assuming full renewal of Section 8 contracts, the House-passed resolution falls below a freeze by \$1.5 billion in 2001. This translates into a 4.1 percent across-the-board cut in other discretionary programs within this function, which would have the following effects:

- ***Special Supplemental Nutrition Program for Women, Infants and Children (WIC)*** — For 2001, WIC funding would be \$165 million below last year's level. Nearly 310,000 low-income women, infants, and children would be cut from the program.
- ***Low Income Home Energy Assistance Program (LIHEAP)*** — For 2001, LIHEAP funding would be cut by \$45 million, eliminating winter and summer home energy assistance to 164,000 low-income families at a time of high energy prices.
- ***Child Care and Development Block Grant (CCDBG)*** — Over 12,000 low-income children of working parents would lose their child care subsidies under the CCDBG.

Funding for mandatory programs in Function 600 under the House-passed resolution is equal to the projected spending under current law.

## **Function 650: Social Security**

Function 650 includes mandatory spending to pay Social Security retirement and disability benefits to 45 million people and appropriated funding to administer these programs.

- The House-passed budget resolution makes no provision for the repeal of the Social Security earnings limit, a bill that had passed the House overwhelmingly before consideration of the budget resolution began.

See *Ignoring Long-Term Needs of Social Security and Medicare* for further discussion.

## **Function 700: Veterans**

Function 700 includes funding for a wide range of veterans' benefits. Mandatory spending in this function pays for veterans' educational benefits and income security benefits such as compensation, pensions, and life insurance. The vast majority of appropriated funding in this function is for veterans' hospitals and medical care, but the function also includes funding for housing programs, veterans' cemeteries, and the general operating expenses of the Department of Veterans' Affairs (VA).

For 2001, the House-passed budget resolution provides \$22.2 billion in appropriated funding for veterans' programs. This level of funding is a \$1.3 billion (6.4 percent) increase over the 2000 freeze level. A Republican press release indicates that most or all of this increase is intended for veterans' health care programs. For 2002 through 2005, the House-passed resolution increases appropriated funding for veterans by \$400 million annually, which does not keep pace with the amount necessary to preserve the current level of services. By 2005, the level in the House-passed resolution represents a cut of \$657 million (2.7 percent) in purchasing power.

The House-passed resolution makes no net changes to mandatory spending for veterans' benefits. For 2001, mandatory spending is \$25.6 billion, which is equal to the projected spending under current law.



## Function 750: Administration of Justice

The Administration of Justice function consists of federal law enforcement programs, litigation and judicial activities, correctional operations, and state and local justice assistance. Agencies that administer programs within this function include the following: the Federal Bureau of Investigation (FBI); the Drug Enforcement Administration (DEA); the Immigration and Naturalization Service (INS); the United States Customs Service; the Bureau of Alcohol, Tobacco, and Firearms (ATF); the United States Attorneys; legal divisions within the Department of Justice; the Legal Services Corporation; the Federal Judiciary; and the Federal Bureau of Prisons.

For 2001, the House-passed budget resolution provides \$26.9 billion for Administration of Justice appropriations. This level of funding represents a \$670 million cut in purchasing power. The House-passed resolution establishes increasingly larger cuts in purchasing power for years 2002 through 2005. It cuts purchasing power for the function by \$1.2 billion (4.3 percent) for 2002; \$1.8 billion (6.3 percent) for 2003; \$2.3 billion (7.8 percent) for 2004; and \$2.9 billion (9.3 percent) for 2005.

- ***Across the Board Reductions*** — The House-passed resolution is silent on specific program cuts in the Administration of Justice function. However, assuming across-the-board cuts, programs such as the FBI, INS, DEA, the Customs Service, and the Community Oriented Policing Services (COPS) program will be forced to scale back operations by nearly 10 percent by 2005.

## Function 800: General Government

This function includes the activities of the White House and the Executive Office of the President, the legislative branch, Internal Revenue Service (IRS), and programs designed to carry out the legislative and administrative responsibilities of the federal government, including personnel management, fiscal operations, and property control.

For 2001, the House-passed budget resolution provides \$12.4 billion in discretionary funding for general government, \$652 million below the amount needed to maintain the current purchasing power of programs within this function. The House-passed resolution continues to cut these programs in 2002-2005 to accumulate a \$7.4 billion cut over the five period. By 2005, the level in the House-passed resolution represents a steep 15.9 percent cut in purchasing power.

- **Internal Revenue Service (IRS)** — The IRS represents 63 percent of funding in this function. A cut of this magnitude would devastate the IRS, when funding for processing, assistance, and management needs to be maintained at current levels. Congress needs to provide the IRS certainty in its operational budget for the near future in order for IRS to set and maintain consistent long-term strategies and priorities and to develop and execute focused plans for improvement to meet the expectations of American taxpayers.
- **Other Programs** — If Congress chooses to fully fund IRS, it will need to cut other programs in this function by over 13 percent for 2001 and 43 percent for 2005. These other agencies include the legislative branch, the Government Accounting Office, the General Services Administration, the Executive Office of the President, and the Library of Congress.

## Function 920: Allowances

Function 920 displays the budgetary effects of proposals that cannot be easily distributed across other budget functions. In the past, this function has included funding for emergencies or proposals contingent on certain events.

The House-passed budget resolution includes the \$8.5 billion supplemental appropriations bill approved by the Appropriations Committee on March 9, 2000. However, on March 30, 2000, the House passed a \$12.6 billion supplemental appropriations bill, exceeding the budget resolution by \$4.1 billion.

- ***Unspecified Cuts***— For 2001, the House-passed resolution cuts non-defense appropriations by \$5.1 billion by including unspecified cuts within function 920. As is explained in greater detail in *Appropriated Programs*, this is part of an effort to mask how large the cuts to non-defense appropriations are in the House-passed resolution. Over the five-year period, 2001-2005, the House-passed resolution contains \$18.5 billion of unspecified cuts in function 920.
- ***Repeal of Delay in Military and Civilian Pay Day***— The House-passed resolution includes a provision contained in the 2000 Supplemental Appropriation that repeals a delay in pay dates for federal civilian employees and military personnel who are scheduled to be paid on September 29 or September 30, 2000; under the delay, they would have been paid on October 1, 2000, the first day in fiscal year 2001. The House-passed resolution restores the pay date to the original schedule, shifting approximately \$4.1 billion in spending back to 2000.
- ***Repeal of Other Provisions Contained in the 2000 Supplemental*** — The House-passed resolution also includes other provisions contained in the supplemental that would repeal payment delays to defense contractors and obligation delays in federal health funding (including funds for the National Institutes of Health and Centers for Disease Control and Prevention). The effect of repealing these provisions will shift a total of \$2.9 billion in outlays for those activities back to 2000 — including \$1.3 billion for contractor payments and \$1.7 billion for federal health activities.
- ***Repeal of Delay in Supplemental Security Income (SSI) Payments*** — The House-passed resolution includes a timing shift that affects SSI payments but not benefit amounts. The House-passed resolution repeals the delay of the October 2000 SSI payments that was enacted as part of the Balanced Budget Act of 1997, thereby shifting the payment of benefits for that month from 2001 back to 2000. This change increases SSI spending for 2000 by \$2.4 billion and reduces 2001 spending by an equal amount.

## Function 950: Undistributed Offsetting Receipts

This function comprises major offsetting receipt items that would distort the funding levels of other functional categories if they were distributed to them. This function currently includes three major items: rents and royalties from the Outer Continental Shelf (OCS); the receipt of agency payments for the employer share of federal employee retirement benefits; and other offsetting receipts, such as those from broadcast spectrum auctions by the Federal Communications Commission (FCC).

Offsetting receipts are recorded as “negative outlays” because they represent voluntary payments to the government in return for goods or services (e.g., OCS royalties and spectrum receipts) or because they represent the receipt by one agency of a payment made by another.

For 2001, the House-passed budget resolution assumes offsetting receipts of \$46.7 billion. Over the five-year period 2001-2005, the resolution assumes offsetting receipts of \$245.4 billion, the same as projected under current law.

- ***Federal Employee Retirement System*** — In 2001, federal agencies will pay \$38.2 billion to the federal employee retirement funds (Civil Service Retirement System, Military Retirement System, and the Federal Employees Retirement System). Federal agencies also make payments to the Medicare health insurance trust fund and the Social Security trust funds on behalf of their employees. As employees’ pay increases, agencies are required to increase their payments to these funds.
- ***Federal Employees Pay Raise*** — The House-passed resolution increases federal civilian pay rates by 3.7 percent in January 2001, the same as the raise for military personnel.